

**REPORT OF THE AUDIT OF THE  
KNOTT COUNTY  
FISCAL COURT**

**For The Fiscal Year Ended  
June 30, 2007**



**CRIT LUALLEN  
AUDITOR OF PUBLIC ACCOUNTS  
[www.auditor.ky.gov](http://www.auditor.ky.gov)**

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**CRIT LUALLEN**  
**AUDITOR OF PUBLIC ACCOUNTS**

To the People of Kentucky

Honorable Steven L. Beshear, Governor

Jonathan Miller, Secretary

Finance and Administration Cabinet

Honorable Randy Thompson, Knott County Judge/Executive

Members of the Knott County Fiscal Court

The enclosed report prepared by Simon, Underwood & Associates PSC, Certified Public Accountants, presents the fourth quarter financial statement of Knott County, Kentucky, as of and for the year ended June 30, 2007.

We engaged Simon, Underwood & Associates PSC to perform the audit of this financial statement. We worked closely with the firm during our report review process; Simon, Underwood & Associates PSC evaluated Knott County's internal controls and compliance with applicable laws and regulations.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen".

Crit Luallen

Auditor of Public Accounts

Enclosure





## **EXECUTIVE SUMMARY**

### **AUDIT EXAMINATION OF THE KNOTT COUNTY FISCAL COURT**

**June 30, 2007**

Simon, Underwood & Associates PSC was engaged to audit the financial activities of Knott County, Kentucky for fiscal year ended June 30, 2007 and we have issued a disclaimer of opinion thereon.

Based on our assessment of fraud risk, we determined the risk for fraud to be too high and we were unable to apply other procedures to overcome this fraud risk. In addition, the Fiscal Court had serious weaknesses in the design and operation of its internal control procedures and accounting functions. Furthermore, management elected to override the internal control procedures that were in place. We were unable to apply audit procedures to test for appropriate compliance with statutory, contractual, and administrative regulations as well as with federal grant agreements, Department for Local Government (DLG) requirements, and county administrative code requirements. Because of this, we were also unable to determine if ethics violations occurred. In addition, we were not able to access certain fiscal court records needed to adequately conduct our procedures due to the county's failure to provide certain requested documentation. The significance of these issues, in the aggregate, prevents us from expressing an opinion and we do not express an opinion on the financial activities of Knott County, Kentucky.

#### **Report Comments:**

- |         |                                                                                                                                                                                                                                 |
|---------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 2007-01 | Over \$8.2 Million In Public Funds Were Expensed For The Knott County Youth Foundation By Fiscal Court Without A Formal Agreement Between The County And The Youth Center With \$2.7 Million Being Spent Without Land Ownership |
| 2007-02 | Knott County Road Expenditures Totaling \$780,814 Could Not Be Validated                                                                                                                                                        |
| 2007-03 | \$412,035 In Public Funds Were Used For Knott County Adventure Tourism Park System (ATV Center) While On Private Property                                                                                                       |
| 2007-04 | All Related Party Transactions Should Be Disclosed To The Fiscal Court                                                                                                                                                          |
| 2007-05 | Knott County Paid Approximately \$7,380 In Health And Dental Insurance Benefits For Five Terminated Employees                                                                                                                   |
| 2007-06 | Knott County Bridge Foreman And A Bridge Employee Were Compensated As Both An Employee And An Independent Contractor To Build Bridges That Could Not Be Validated                                                               |
| 2007-07 | Finance Director Was Compensated As Both An Employee And An Independent Contractor                                                                                                                                              |
| 2007-08 | Knott County Fiscal Court Continues To Lack Controls Over County Vehicles And Cell Phones Provided To County Employees And Fails To Report Personal Use As Taxable Income                                                       |
| 2007-09 | Knott County Fiscal Court Approved The Exchange Of .14 Acres Owned By Fiscal Court With .04 Acres Purportedly Owned By The County Attorney And Former County Treasurer's Brother                                                |
| 2007-10 | Knott County Fiscal Court Failed To Take Corrective Action Of Prior Year Ended June 30, 2005 Comments Relating To Pool Project, Federal And Restricted Funds                                                                    |
| 2007-11 | Knott County Judge/Executive May Appoint Only One Deputy Judge/Executive                                                                                                                                                        |
| 2007-12 | All Contingent Liabilities Should Be Disclosed To The Fiscal Court                                                                                                                                                              |
| 2007-13 | The County Failed To Comply With State Laws And Regulations                                                                                                                                                                     |
| 2007-14 | Knott County Fiscal Court Did Not Follow Competitive Bidding Requirements For County Projects And Contracts Not Bid Were Paid To Related Parties                                                                                |

EXECUTIVE SUMMARY  
AUDIT EXAMINATION OF THE  
KNOTT COUNTY FISCAL COURT  
June 30, 2007  
(Continued)

**Report Comments:** (Continued)

2007-15	Knott County Fiscal Court Should Improve Controls Over Payroll Procedures
2007-16	Knott County Fiscal Court Expenditures Of Over \$2 Million Failed To Have Proper Documentation Or Comply With Payment Procedures
2007-17	Knott County Fiscal Court Minutes Should Accurately Reflect What Occurs At Fiscal Court Meetings; And Committees, Commissions And Boards Appointed By The Fiscal Court Should Also Maintain Minutes Of Their Respective Meetings
2007-18	The County Does Not Maintain Proper Documentation For Accurate Valuation Of Capital Assets
2007-19	The County Does Not Maintain Proper Documentation Totaling \$18,000 For Independent Contractors
2007-20	Approximately \$8.2 Million Of Assets Are At Risk Due To Inadequate Insurance Coverage
2007-21	Fiscal Court Paid \$221 In Late Fees On Credit Card Payments
2007-22	Fiscal Court Should Improve Policy And Procedures Related To The Schedule Of Expenditures Of Federal Awards

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To the People of Kentucky  
Honorable Steven L. Beshear, Governor  
Jonathan Miller, Secretary  
Finance and Administration Cabinet  
Honorable Randy Thompson, Knott County Judge/Executive  
Members of the Knott County Fiscal Court

#### Independent Auditor's Report

We were engaged to audit the financial activity contained in the Fourth Quarterly Report of Knott County, Kentucky, as of and for the year ended June 30, 2007. The financial activity is the responsibility of the Knott County Fiscal Court.

The financial activity contained in the Fourth Quarterly Report is intended to present budgeted and actual revenues and expenditures of Knott County, Kentucky on the cash basis of accounting and also the long-term debt of Knott County, Kentucky. Actual revenues and expenditures are recognized when received or paid rather than when earned or incurred. The presentation of the financial activity contained in the Fourth Quarterly Report is not intended to be a presentation in conformity with generally accepted accounting principles.

Based on our assessment of fraud risk, we determined the risk of fraud to be too high, and we were unable to apply other procedures to overcome this fraud risk. In addition, the Fiscal Court had serious weaknesses in the design and operation of its internal control procedures and accounting functions. Furthermore, management elected to override the internal control procedures that were in place. We were unable to apply audit procedures to test for appropriate compliance with statutory, contractual, and administrative regulations as well as with federal grant agreements, Department for Local Government (DLG) requirements, and county administrative code requirements. Because of this, we were also unable to determine if ethics violations occurred. In addition, we were unable to access certain Fiscal Court records needed to adequately conduct our procedures due to the county's failure to provide certain requested documentation. The significance of these issues, in the aggregate, prevents us from placing any reliance on the financial activities contained in the Fourth Quarterly Report of the Fiscal Court.

Because we were unable to place reliance on the accuracy, validity, and completeness of the county's Fourth Quarterly Report and because audit risk is at an unacceptable level, the scope of our work was not sufficient to enable us to express, and we do not express, an opinion on the financial activity contained in the report referred to in the first paragraph.

To the People of Kentucky  
 Honorable Steven L. Beshear, Governor  
 Jonathan Miller, Secretary  
 Finance and Administration Cabinet  
 Honorable Randy Thompson, Knott County Judge/Executive  
 Members of the Knott County Fiscal Court

In accordance with Government Auditing Standards, we have also issued our report dated September 15, 2008, on our consideration of Knott County, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Based on the results of our audit, we present the schedule of findings and questioned costs, included herein, which discusses the following report comments:

2007-01	Over \$8.2 Million In Public Funds Were Expensed For The Knott County Youth Foundation By Fiscal Court Without A Formal Agreement Between The County And The Youth Center With \$2.7 Million Being Spent Without Land Ownership
2007-02	Knott County Road Expenditures Totaling \$780,814 Could Not Be Validated
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2007-08	Knott County Fiscal Court Continues To Lack Controls Over County Vehicles And Cell Phones Provided To County Employees And Fails To Report Personal Use As Taxable Income
2007-09	Knott County Fiscal Court Approved The Exchange Of .14 Acres Owned By Fiscal Court With .04 Acres Purportedly Owned By The County Attorney And Former County Treasurer's Brother
2007-10	Knott County Fiscal Court Failed To Take Corrective Action Of Prior Year Ended June 30, 2005 Comments Relating To Pool Project, Federal And Restricted Funds
2007-11	Knott County Judge/Executive May Appoint Only One Deputy Judge/Executive
2007-12	All Contingent Liabilities Should Be Disclosed To The Fiscal Court
2007-13	The County Failed To Comply With State Laws And Regulations
2007-14	Knott County Fiscal Court Did Not Follow Competitive Bidding Requirements For County Projects And Contracts Not Bid Were Paid To Related Parties
2007-15	Knott County Fiscal Court Should Improve Controls Over Payroll Procedures
2007-16	Knott County Fiscal Court Expenditures Of Over \$2 Million Failed To Have Proper Documentation Or Comply With Payment Procedures
2007-17	Knott County Fiscal Court Minutes Should Accurately Reflect What Occurs At Fiscal Court Meetings; And Committees, Commissions And Boards Appointed By The Fiscal Court Should Also Maintain Minutes Of Their Respective Meetings
2007-18	The County Does Not Maintain Proper Documentation For Accurate Valuation Of Capital Assets
2007-19	The County Does Not Maintain Proper Documentation Totaling \$18,000 For Independent Contractors

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Members of the Knott County Fiscal Court

2007-20      Approximately \$8.2 Million Of Assets Are At Risk Due To Inadequate Insurance Coverage  
2007-21      Fiscal Court Paid \$221 In Late Fees On Credit Card Payments  
2007-22      Fiscal Court Should Improve Policy And Procedures Related To The Schedule Of Expenditures Of Federal Awards

*Simon, Underwood & Associates PSC*

Simon, Underwood & Associates PSC  
Certified Public Accountants and Consultants

Louisville, Kentucky  
September 15, 2008

KNOTT COUNTY OFFICIALS

For The Year Ended June 30, 2007

**Fiscal Court Members:**

Randy Thompson	County Judge/Executive
Ronnie Adams	Magistrate through December 31,2006
John Short	Magistrate beginning January 1, 2007
Keith Combs	Magistrate through December 31,2006
Wade Noble	Magistrate beginning January 1, 2007
Walter Combs	Magistrate through December 31,2006
Haskel Ritchie	Magistrate beginning January 1, 2007
James Huff	Magistrate through December 31,2006
Kirby Hall	Magistrate beginning January 1, 2007

**Other Elected Officials:**

Randy Slone	County Attorney through December 31, 2006
Tim Bates	County Attorney beginning January 1, 2007
Eldon Hicks	Jailer
Kenneth Gayheart	County Clerk
Ray Bolen	Sheriff
Edward Slone	Property Valuation Administrator
Jeff Blair	Coroner

**Appointed Personnel:**

Ray Slone	County Judge/Executive Pro Tem
Mac Combs	Deputy Judge/Executive
Phillip Champion	Deputy Judge/Executive
Byron Jacobs	County Treasurer
Darrell Madden, CPA, PSC	Finance Officer
Tammy Brewer	Finance Director
Harold D. Bentley	Road Foremen

**KNOTT COUNTY  
FOURTH QUARTER FINANCIAL STATEMENT**

**For The Year Ended June 30, 2007**




**KNOTT COUNTY  
FOURTH QUARTER FINANCIAL STATEMENT  
For The Year Ended June 30, 2007**

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<p><b>Governor's Office for Local Development</b></p> <p>County Financial Reports</p> <p>Upload Signature Page</p> 	<p>The following financial files have been recieved from Knott County for the 4th Quarter of the fiscal year ending June 30, 2007:</p> <ol style="list-style-type: none"> <li>1. Header.txt (211)</li> <li>2. Summary.txt (4407)</li> <li>3. Reconcil.txt (4407)</li> <li>4. Receipts.txt (33015)</li> <li>5. Disburse.txt (126252)</li> <li>6. MyLiabil.txt (5604)</li> <li>7. ShortTrm.txt (430)</li> <li>8. TotLibil.txt (50)</li> </ol> <div data-bbox="1015 535 1315 735"> <p align="center"><b>RECEIVED</b></p> <p align="center">JUL 23 2007</p> <p align="center">Div. of Financial Management &amp; Administration</p> </div> <p>If you recieve any errors, please contact the DLG webmaster and provide the contents of this page. Thank you.</p>
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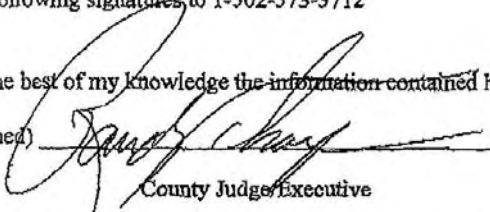
**Sign-Off Form**

Please Print this out and Fax it back with  
the following signatures to 1-502-573-3712

Produced on:  
7/23/2007 7:02:30 AM

To the best of my knowledge the information contained herein is accurate and complete.

(Signed)



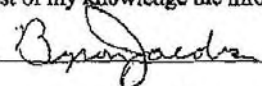
County Judge/Executive

7-23-07

Date

To the best of my knowledge the information contained herein is accurate and complete.

(Signed)



County Treasurer

7-23-07

Date

**End of UFIR Report**

**KNOTT COUNTY**  
**FOURTH QUARTER FINANCIAL STATEMENT**  
**For The Year Ended June 30, 2007**  
**(Continued)**



*Production*

**Department for Local Government**

1024 Capital Center Drive, Suite 340

Frankfort, Kentucky 40601

(502) 573-2382 or (800) 346-5606

**Header Data**

**060 - Knott**

Judge Executive	Treasurer	Submitted	Imported	Source
Randy Thompson	Byron Jacobs	07/20/2007	07/20/2007	GOLDXL2



**KNOTT COUNTY**  
**FOURTH QUARTER FINANCIAL STATEMENT**  
**For The Year Ended June 30, 2007**  
**(Continued)**



Production

**Department for Local Government**

1024 Capital Center Drive, Suite 340

Frankfort, Kentucky 40601

(502) 573-2382 or (800) 346-5606

**Summary Data**

**060 - Knott**

Fund	Description	Receipts	Disbursements	Cash Balance	Encumb	Unencum
01	GENERAL	\$2,428,452.65	\$2,120,417.39	\$308,035.26	\$394,996.45	(\$86,961.19)
02	ROAD	\$2,928,144.90	\$2,752,939.93	\$175,204.97	\$39,592.39	\$135,612.58
03	JAIL	\$763,739.36	\$692,675.95	\$71,063.41	\$35,788.76	\$35,274.65
04	LGEA	\$3,968,604.54	\$3,874,407.26	\$94,197.28	\$240,883.64	(\$146,686.36)
06	STATE GRANTS	\$6,512,582.70	\$5,888,914.08	\$623,668.62	\$375,834.85	\$247,833.77
07	FEDERAL GRANTS	\$166,852.93	\$1.00	\$166,851.93	\$222,743.82	(\$55,891.89)
08	EMERGENCY MGT	\$55,931.57	\$0.00	\$55,931.57	\$0.00	\$55,931.57
12	FORESTRY	\$10,830.95	\$7,716.00	\$3,114.95	\$0.00	\$3,114.95
75	E-911	\$155,035.59	\$123,227.13	\$31,808.46	\$2,501.78	\$29,306.68
76	CAPITAL PROJECT YOUTH CENTER & ADULT WELLNESS COMPLEX	\$8,548,071.77	\$5,082,697.16	\$3,465,374.61	\$0.00	\$3,465,374.61
99	DEBT SERVICE	\$89,378.50	\$89,378.50	\$0.00	\$0.00	\$0.00
<b>TOTALS</b>		<b>\$25,627,625.46</b>	<b>\$20,632,374.40</b>	<b>\$4,995,251.06</b>	<b>\$1,312,341.69</b>	<b>\$3,682,909.37</b>

**KNOTT COUNTY**  
**FOURTH QUARTER FINANCIAL STATEMENT**  
**For The Year Ended June 30, 2007**  
**(Continued)**



**Department for Local Government**

1024 Capital Center Drive, Suite 340

Frankfort, Kentucky 40601

(502) 573-2382 or (800) 346-5606

**Reconciliation Data**

**060 - Knott**

Fund	Description	Bank Balance	Dep. In Transit	Checks	Other	Cash Balance
01	GENERAL	\$405,864.11	\$4.00	\$97,832.85		\$308,035.26
02	ROAD	\$191,161.65		\$15,956.68		\$175,204.97
03	JAIL	\$73,334.04		\$2,270.63		\$71,063.41
04	LGEA	\$117,103.82		\$22,906.54		\$94,197.28
06	STATE GRANTS	\$661,382.71		\$37,714.09		\$623,668.62
07	FEDERAL GRANTS	\$166,851.93		\$0.00		\$166,851.93
08	EMERGENCY MGT	\$55,931.57		\$0.00		\$55,931.57
12	FORESTRY	\$3,114.95		\$0.00		\$3,114.95
75	E-911	\$33,629.65		\$1,821.19		\$31,808.46
76	CAPITAL PROJECT YOUTH CENTER & ADULT WELLNESS COMPLEX	\$3,465,374.61		\$0.00		\$3,465,374.61
99	DEBT SERVICE	\$0.00		\$0.00		\$0.00
<b>TOTALS</b>		<b>\$5,173,749.04</b>	<b>\$4.00</b>	<b>\$178,501.98</b>		<b>\$4,995,251.06</b>

**KNOTT COUNTY**  
**FOURTH QUARTER FINANCIAL STATEMENT**  
**For The Year Ended June 30, 2007**  
**(Continued)**



Production

**Department for Local Government**

1024 Capital Center Drive, Suite 340

Frankfort, Kentucky 40601

(502) 573-2362 or (800) 346-5606

**Receipts Data**

**060 - Knott**

Fund	Maj	Suf1	Suf2	Description	Budget Original	Amendment	Rec'd this Qtr	Rec'd to Date	Under/Over
01	4101			Real Property Taxes	\$250,000.00		\$19,836.14	\$236,788.15	\$13,211.85
01	4102			Personal Property Taxes	\$140,000.00		\$252.50	\$139,486.10	\$513.90
01	4103			Motor Vehicle Taxes	\$110,000.00		\$37,507.49	\$105,344.08	\$4,655.92
01	4104			Delinquent Taxes	\$30,000.00		\$3,305.68	\$28,719.21	\$1,280.79
01	4107			Unmined Minerals Taxes	\$250,000.00		\$166,851.32	\$430,233.43	(\$180,233.43)
01	4121			Advertising Costs	\$800.00		\$1,670.00	\$1,845.00	(\$1,045.00)
01	4130			Bank Franchise Deposit Tax	\$30,000.00		\$0.00	\$0.00	\$30,000.00
01	4131			Public Service Tax	\$75,000.00		\$45,774.51	\$87,642.86	(\$12,642.86)
01	4135			Deed Transfers	\$25,000.00		\$1,964.24	\$7,894.55	\$17,105.45
01	4201			PILOT Public Housing	\$0.00		\$6,939.00	\$6,939.00	(\$6,939.00)
01	4210			Acreage Tax-Corps of Engineers	\$2,100.00		\$0.00	\$1,871.25	\$228.75
01	4302			Excess Fees-County Clerk	\$100.00		\$0.00	\$0.00	\$100.00
01	4304			Excess Fees-Sheriff	\$1,800.00	\$133,344.59	\$0.00	\$135,144.59	\$0.00
01	4501			Omitted Property Taxes	\$20,000.00		\$230.01	\$21,130.04	(\$1,130.04)
01	4504			Federal Grants	\$0.00		\$44,250.00	\$44,250.00	(\$44,250.00)
01	4505			Motor Vehicle Tax-Other Counties	\$5,500.00		\$8,808.34	\$19,561.84	(\$14,061.84)
01	4520			Election Reimbursements	\$20,000.00		\$0.00	\$18,000.00	\$2,000.00
01	4521			Board of Assessments	\$1,200.00		\$0.00	\$800.00	\$400.00
01	4522			Legal Process Fees	\$130.00		\$0.00	\$89.38	\$40.62
01	4526			Strip Mine Permits	\$50,000.00		\$0.00	\$28,862.50	\$21,137.50
01	4532			Courthouse Rental-AOC	\$140,000.00		\$47,168.00	\$182,336.00	(\$42,336.00)
01	4602			Solid Waste Commissions	\$125,000.00		\$29,221.30	\$114,092.84	\$10,907.16
01	4726			Insurance Proceeds	\$0.00		\$0.00	\$5,819.60	(\$5,819.60)
01	4727			Reimbursements	\$0.00		\$13.00	\$169.00	(\$169.00)
01	4733			Insurance Reimbursements	\$80,000.00		\$28,919.92	\$111,881.70	(\$31,881.70)
01	4799			Other Receipts	\$1,000.00		\$3,231.54	\$7,366.72	(\$6,366.72)
2007		4Q							

**KNOTT COUNTY**  
**FOURTH QUARTER FINANCIAL STATEMENT**  
**For The Year Ended June 30, 2007**  
**(Continued)**

Fund	Maj	Suf1	Suf2	Description	Budget Original	Amendment	Rec'd this Qtr	Rec'd to Date	Under/Over
01	4806			Interest Income	\$10,000.00		\$3,655.49	\$12,650.50	(\$2,650.50)
01	4901			Prior Year Carryover	\$200,000.00	\$238,349.89	\$0.00	\$438,349.89	\$0.00
01	4909			Transfers Out	\$0.00		\$0.00	(\$250,000.00)	\$250,000.00
01	4910			Transfers In	\$222,690.42		\$0.00	\$491,184.42	(\$268,494.00)
02	4513			Emerg. Road Aid - 3% Additional	\$25,100.00		\$0.00	\$0.00	\$25,100.00
02	4514			Transportation Cabinet	\$500,000.00		\$0.00	\$375,000.00	\$125,000.00
02	4515			Energy Recovery Road Aid	\$26,500.00		\$0.00	\$48,778.02	(\$22,278.02)
02	4516			Truck Licenses	\$222,690.42		\$0.00	\$232,937.56	(\$10,247.14)
02	4517			Operators License	\$1,575.00		\$0.00	\$1,543.25	\$31.75
02	4518			County Road Aid	\$812,522.00		\$0.00	\$804,108.00	\$8,414.00
02	4704			Sale of Surplus Equipment	\$0.00		\$29,295.00	\$29,295.00	(\$29,295.00)
02	4799			Other Receipts	\$1,000.00		\$2,000.00	\$2,000.00	(\$1,000.00)
02	4806			Interest Income	\$10,000.00		\$4,251.36	\$28,494.98	(\$18,494.98)
02	4901			Prior Year Carryover	\$150,000.00	(\$33,337.80)	\$0.00	\$116,662.20	\$0.00
02	4904			Bond Anticipation Notes	\$0.00	\$1,500,000.00	\$0.00	\$1,500,000.00	\$0.00
02	4909			Transfers Out	(\$222,690.42)		\$0.00	(\$249,555.64)	\$26,865.22
02	4910			Transfers In	\$0.00		\$0.00	\$38,881.53	(\$38,881.53)
03	4533			County Jail Allotment	\$52,000.00		\$8,649.42	\$49,060.49	\$2,939.51
03	4534			Routine Medical	\$2,000.00		\$6,460.06	\$8,595.42	(\$6,595.42)
03	4535			Court Costs	\$2,000.00		\$0.00	\$0.00	\$2,000.00
03	4538			D.U.I. Fees	\$2,000.00		\$754.20	\$2,803.27	(\$803.27)
03	4567			Court Cost Supplement	\$5,000.00		\$4,983.70	\$23,698.25	(\$18,698.25)
03	4799			Other Receipts	\$100.00		\$702.50	\$4,804.00	(\$4,704.00)
03	4806			Interest Income	\$500.00		\$936.96	\$4,253.91	(\$3,753.91)
03	4901			Prior Year Carryover	\$10,000.00	\$10,524.02	\$0.00	\$20,524.02	\$0.00
03	4910			Transfers In	\$700,000.00		\$125,000.00	\$650,000.00	\$50,000.00
04	4504			Federal Grants	\$0.00		\$0.00	\$59,877.00	(\$59,877.00)
04	4506			State Reimbursements - SC, etc.	\$100,000.00		\$26,802.89	\$89,503.38	\$10,496.62
04	4527			Coal Severance Tax	\$1,700,000.00	\$267,484.44	\$458,075.56	\$1,967,484.44	\$0.00
04	4529			Mineral Severance Tax	\$1,600,000.00	\$340,639.86	\$443,165.46	\$1,940,639.86	\$0.00
04	4711			Rentals & Leases-Miscellaneous	\$7,000.00		\$6,469.39	\$12,025.56	(\$5,025.56)
04	4733			Insurance Reimbursements	\$0.00		\$5,196.60	\$19,601.49	(\$19,601.49)
04	4799			Other Receipts	\$1,000.00		\$7,860.85	\$13,333.97	(\$12,333.97)
04	4806			Interest Income	\$12,000.00		\$4,970.33	\$27,992.05	(\$15,992.05)
04	4901			Prior Year Carryover	\$200,000.00	\$557,868.85	\$0.00	\$757,868.85	\$0.00
04	4909			Transfers Out	(\$700,000.00)		(\$125,000.00)	(\$1,196,674.06)	\$496,674.06
04	4910			Transfers In	\$0.00		\$0.00	\$276,952.00	(\$276,952.00)
2007			4Q						

**KNOTT COUNTY**  
**FOURTH QUARTER FINANCIAL STATEMENT**  
**For The Year Ended June 30, 2007**  
**(Continued)**

Fund	Maj	Suf1	Suf2	Description	Budget Original	Amendment	Rec'd this Qtr	Rec'd to Date	Under/Over
06	4508			State Grants - LGED	\$1,000,000.00		\$0.00	\$0.00	\$1,000,000.00
06	4510			State Grants	\$4,400,000.00		\$1,314,946.40	\$5,479,507.90	(\$1,079,507.90)
06	4799			Other Receipts	\$0.00		\$0.00	\$95.76	(\$95.76)
06	4806			Interest Income	\$10,000.00		\$3,677.82	\$27,465.06	(\$17,465.06)
06	4901			Prior Year Carryover	\$100,000.00	\$654,285.92	\$0.00	\$754,285.92	\$0.00
06	4909			Transfers Out	\$0.00		\$0.00	(\$1,952.00)	\$1,952.00
06	4910			Transfer In	\$0.00		\$0.00	\$253,180.06	(\$253,180.06)
07	4504			Federal Grants	\$0.00	\$0.00	\$166,299.64	\$166,299.64	(\$166,299.64)
07	4806			Interest Income	\$0.00	\$0.00	\$7.31	\$7.31	(\$7.31)
07	4901			Prior Year Carryover	\$545.98		\$0.00	\$545.98	\$0.00
08	4542			Flood Disaster Reimbursement	\$0.00		\$0.00	\$0.00	\$0.00
08	4806			Interest Income	\$100.00		\$64.90	\$259.83	(\$159.83)
08	4901			Prior Year Carryover	\$55,000.00	\$671.74	\$0.00	\$55,671.74	\$0.00
12	4101			Real Property Taxes	\$0.00		\$240.69	\$3,305.26	(\$3,305.26)
12	4104			Delinquent Taxes	\$100.00		\$39.56	\$159.47	(\$69.47)
12	4112			Forest Fire Suppression	\$3,275.00		\$0.00	\$0.00	\$3,275.00
12	4806			Interest Income	\$100.00		\$31.55	\$206.73	(\$106.73)
12	4901			Prior Year Carryover	\$3,000.00	\$4,159.49	\$0.00	\$7,159.49	\$0.00
75	4140			Telephone Surcharge E-911	\$140,000.00		\$33,716.20	\$136,001.80	\$3,998.20
75	4710			Map Sales	\$100.00		\$0.00	\$0.00	\$100.00
75	4806			Interest Income	\$500.00		\$302.81	\$1,153.34	(\$653.34)
75	4901			Prior Year Carryover	\$10,000.00	\$7,880.45	\$0.00	\$17,880.45	\$0.00
76	4808			Interest on Investments	\$0.00	\$0.00	\$67,596.95	\$252,987.44	(\$252,987.44)
76	4905			Bond Proceeds	\$0.00	\$8,000,000.00	\$0.00	\$8,295,084.33	(\$295,084.33)
99	4809			Interest on Sinking Fund Account	\$0.00		\$0.00	\$3,030.50	(\$3,030.50)
99	4901			Prior Year Carryover	\$0.00	\$98,364.31	\$0.00	\$98,364.31	\$0.00
99	4909			Transfers Out	\$0.00		\$0.00	(\$13,881.53)	\$13,881.53
99	4910			Transfers In	\$0.00		\$0.00	\$1,865.22	(\$1,865.22)
<b>TOTALS</b>					<b>\$12,733,338.40</b>	<b>\$11,780,235.76</b>	<b>\$3,047,096.59</b>	<b>\$25,627,625.46</b>	<b>(\$1,114,051.30)</b>

**KNOTT COUNTY**  
**FOURTH QUARTER FINANCIAL STATEMENT**  
**For The Year Ended June 30, 2007**  
**(Continued)**



Production

**Department for Local Government**

1024 Capital Center Drive, Suite 340

Frankfort, Kentucky 40601

(502) 573-2382 or (800) 346-5606

**Disbursements Data**

**060 - Knott**

Fund	Maj	Min	Suf	Description	Budget Original	Amendment	Transfers	Total Available	Claims Allowed	Free Balance
01	5001	101		Judge/Executive Salary	\$66,039.22		\$3,971.00	\$70,010.22	\$70,009.70	\$0.52
01	5001	103		Deputy Judge/Executive Salary	\$38,440.00		\$19,418.00	\$57,858.00	\$57,857.67	\$0.33
01	5001	105		Judge/Executive Pro-Tem Salary	\$17,600.00		\$132.00	\$17,732.00	\$17,732.00	\$0.00
01	5001	133		Purchase/Finance Officer	\$31,800.00		\$1,566.00	\$33,366.00	\$33,365.15	\$0.85
01	5001	301		Accounting Services	\$34,722.84		\$7,800.00	\$42,522.84	\$42,522.84	\$0.00
01	5001	302		Advertising	\$27,500.00		\$20,000.00	\$47,500.00	\$45,854.64	\$1,645.36
01	5001	309		Financial Consulting Services	\$18,000.00			\$18,000.00	\$18,000.00	\$0.00
01	5001	323		Judge's Office Engineering	\$0.00		\$862.50	\$862.50	\$862.50	\$0.00
01	5001	332		Legal Fees	\$0.00		\$14,228.56	\$14,228.56	\$14,228.56	\$0.00
01	5001	445		Office Supplies	\$35,000.00		\$4,500.00	\$39,500.00	\$39,248.65	\$251.35
01	5001	499		Other Materials and Supplies	\$1,000.00		\$10,800.00	\$11,800.00	\$11,547.47	\$252.53
01	5001	569		Judge's Office Conferences	\$0.00		\$3,550.00	\$3,550.00	\$3,549.81	\$0.19
01	5001	573		Executive Offices-Telephone	\$35,000.00		(\$5,000.00)	\$30,000.00	\$28,994.01	\$1,005.99
01	5001	576		Travel	\$5,000.00			\$5,000.00	\$4,455.59	\$544.41
01	5001	725		Office Equipment	\$2,000.00			\$2,000.00	\$0.00	\$2,000.00
01	5005	101		County Attorney's Salary	\$35,651.00			\$35,651.00	\$35,650.95	\$0.05
01	5005	105		Asst. County Attorney Salary	\$14,491.00			\$14,491.00	\$14,490.07	\$0.93
01	5005	165		Co Attorney Secretaries' Salaries	\$25,200.00		\$100.00	\$25,300.00	\$25,264.98	\$35.02
01	5005	445		Co Attorney Office Supplies	\$7,250.00		\$510.00	\$7,760.00	\$7,756.43	\$3.57
01	5005	573		County Attorney Telephone	\$3,500.00			\$3,500.00	\$2,682.49	\$817.51
01	5010	307		County Clerk Audits	\$7,000.00		(\$7,000.00)	\$0.00	\$0.00	\$0.00
01	5010	368		Tax Bill Preparation-County Clerk	\$4,000.00			\$4,000.00	\$3,907.50	\$92.50
01	5010	445		Co Clerk Office Supplies	\$20,000.00		\$907.95	\$20,907.95	\$20,893.57	\$14.38
01	5010	507		Clerk's Office Assistance	\$0.00		\$27,485.21	\$27,485.21	\$27,485.21	\$0.00
01	5010	549		Clerk's Office Medical Services	\$0.00		\$400.00	\$400.00	\$400.00	\$0.00
01	5010	573		County Clerk Telephone	\$8,000.00		(\$2,525.31)	\$5,474.69	\$5,474.69	\$0.00
2007				4Q	Page 1 of 10			Thursday, January 08, 2009		

**KNOTT COUNTY**  
**FOURTH QUARTER FINANCIAL STATEMENT**  
**For The Year Ended June 30, 2007**  
**(Continued)**

Fund	Maj	Min	Suf	Description	Budget-Original	Amendment	Transfers	Total Available	Claims Allowed	Free Balance
01	5010	705		Equipment - County Clerk	\$0.00		\$165,691.24	\$165,691.24	\$165,691.24	\$0.00
01	5015	302		Advertising-Delinquent Taxes	\$1,250.00		\$3,300.00	\$4,550.00	\$4,533.00	\$17.00
01	5015	307		Sheriff Department Audit Services	\$11,000.00		\$3,950.00	\$14,950.00	\$14,932.02	\$17.98
01	5015	435		Sheriff Department Equipment	\$0.00		\$600.00	\$600.00	\$300.00	\$300.00
01	5015	445		Sheriff Department Office Supplie	\$3,500.00		\$1,930.00	\$5,430.00	\$5,426.44	\$3.56
01	5015	563		Postage for Tax Bills	\$3,000.00			\$3,000.00	\$2,580.82	\$419.18
01	5015	573		Sheriff Department Telephone	\$3,750.00		\$5,305.00	\$9,055.00	\$9,051.04	\$3.96
01	5015	735		Sheriff Department Vehicle	\$0.00		\$5,819.60	\$5,819.60	\$5,819.60	\$0.00
01	5025	101		Magistrate Salaries	\$60,000.00		\$1.00	\$60,001.00	\$60,000.52	\$0.48
01	5025	125		Recording of Fiscal Court Minutes	\$2,400.00		\$4,000.00	\$6,400.00	\$3,600.00	\$2,800.00
01	5025	210		Magistrate Expense Allowances	\$14,400.00		\$1,510.00	\$15,910.00	\$15,906.13	\$3.87
01	5025	567		Magistrate Reimbursements	\$0.00		\$1,580.00	\$1,580.00	\$1,577.61	\$2.39
01	5030	367		PVA Statutory Contribution	\$33,937.00		(\$1,332.00)	\$32,605.00	\$32,605.00	\$0.00
01	5030	573		PVA Telephone	\$2,500.00		\$90.00	\$2,590.00	\$2,585.62	\$4.38
01	5035	191		Board of Assessment Appeals	\$2,000.00			\$2,000.00	\$1,600.00	\$400.00
01	5040	102		County Treasurer Salary	\$40,000.00		\$1,132.00	\$41,132.00	\$41,131.74	\$0.26
01	5057	129		Computer Programmer	\$28,100.00		(\$14,018.40)	\$14,081.60	\$14,081.60	\$0.00
01	5060	101		County Law Librarian	\$600.00			\$600.00	\$0.00	\$600.00
01	5065	192		Election Officers	\$20,000.00		\$19,100.00	\$39,100.00	\$39,100.00	\$0.00
01	5065	193		Election Commissioners	\$4,000.00		\$2,220.00	\$6,220.00	\$6,220.00	\$0.00
01	5065	347		Election Polling Places	\$10,000.00		(\$7,000.00)	\$3,000.00	\$2,924.70	\$75.30
01	5065	565		Printing & Miscellaneous for Elect	\$11,500.00		\$38,301.55	\$49,801.55	\$49,801.55	\$0.00
01	5065	573		Election Precinct Telephone	\$0.00		\$1,338.38	\$1,338.38	\$1,338.26	\$0.12
01	5076	304		Land Appraisal	\$1,000.00		\$2,500.00	\$3,500.00	\$3,500.00	\$0.00
01	5080	323		Courthouse Engineering Services	\$0.00		\$1,464.00	\$1,464.00	\$1,464.00	\$0.00
01	5080	329		Janitorial Services	\$16,800.00		\$4,800.00	\$21,600.00	\$21,600.00	\$0.00
01	5080	333		Maintenance Agreements	\$5,400.00			\$5,400.00	\$5,187.75	\$212.25
01	5080	406		Building Maintenance Supplies	\$15,000.00		\$730.00	\$15,730.00	\$15,723.79	\$6.21
01	5080	411		Custodial Supplies	\$4,000.00			\$4,000.00	\$3,756.59	\$243.41
01	5080	499		Other Supplies & Materials	\$1,000.00			\$1,000.00	\$86.82	\$913.18
01	5080	563		Postage	\$1,000.00		(\$1,000.00)	\$0.00	\$0.00	\$0.00
01	5080	573		Telephone Courthouse	\$0.00		\$1,000.00	\$1,000.00	\$544.17	\$455.83
01	5080	578		Utilities	\$27,000.00		(\$2,440.76)	\$24,559.24	\$23,515.40	\$1,043.84
01	5081	107		Maintenance Supervisor	\$30,200.00		\$60.00	\$30,260.00	\$30,251.78	\$8.22
01	5081	175		Judicial Center Janitors	\$55,000.00		\$1,500.00	\$56,500.00	\$55,757.16	\$742.84
01	5081	333		Judicial Center - Maint. Agreemen	\$5,000.00		\$1,400.00	\$6,400.00	\$6,399.15	\$0.85
01	5081	406		Judicial Center - Maint. Materials	\$25,000.00		(\$15,235.41)	\$9,764.59	\$9,706.47	\$58.12
2007				4Q	Page 2 of 10			Thursday, January 08, 2009		



**KNOTT COUNTY**  
**FOURTH QUARTER FINANCIAL STATEMENT**  
**For The Year Ended June 30, 2007**  
**(Continued)**

Fund	Major	Minor	Sub	Description	Budget Original	Amendment	Transfers	Total Available	Claims Allowed	Free Balance
01	5081	411		Judicial Center Janitorial Supplies	\$6,000.00		(\$3,000.00)	\$3,000.00	\$2,720.08	\$279.92
01	5081	525		Judicial Center Flood Insurance	\$0.00		\$5,759.00	\$5,759.00	\$5,759.00	\$0.00
01	5081	573		Telephone Lines - AOC	\$2,500.00			\$2,500.00	\$2,222.56	\$277.44
01	5081	578		Judicial Center Utilities	\$46,000.00		\$4,950.00	\$50,950.00	\$50,915.57	\$34.43
01	5120	507		Fire Department Support	\$0.00		\$50.00	\$50.00	\$0.00	\$50.00
01	5315	595		Scholarship Program-WYMT	\$1,000.00			\$1,000.00	\$1,000.00	\$0.00
01	5330	515		General Charity and Welfare	\$0.00		\$2,000.00	\$2,000.00	\$2,000.00	\$0.00
01	5405	499		Recreation Program Supplies	\$0.00		\$2,324.00	\$2,324.00	\$2,324.00	\$0.00
01	7500	603		Judge Exec Vehicle Principal	\$0.00		\$3,648.00	\$3,648.00	\$3,647.85	\$0.15
01	7500	607		Judge Exec Vehicle Interest	\$0.00		\$843.00	\$843.00	\$841.79	\$1.21
01	7600	699		Debt Service-Fern Taylor	\$3,172.00			\$3,172.00	\$3,172.00	\$0.00
01	7700	602		Leased Vehicle-Principal	\$3,395.00			\$3,395.00	\$2,709.71	\$685.29
01	7700	606		Leased Vehicle-Interest	\$43.00			\$43.00	\$39.29	\$3.71
01	9100	307		Audit Services	\$150,000.00		(\$57,153.99)	\$92,846.01	\$92,776.80	\$69.21
01	9100	525		Property and Liability Insurance	\$250,000.00		\$11,119.72	\$261,119.72	\$261,119.72	\$0.00
01	9100	531		Bonds for Officials	\$3,500.00		\$8,000.00	\$11,500.00	\$11,322.35	\$177.65
01	9100	551		KCJEA/KMCA Dues	\$1,700.00		\$330.00	\$2,030.00	\$2,028.65	\$1.35
01	9100	553		KRADD Dues	\$0.00		\$12,755.00	\$12,755.00	\$12,755.00	\$0.00
01	9100	555		KACO Dues	\$900.00			\$900.00	\$900.00	\$0.00
01	9100	558		Coal County Coalition	\$3,000.00			\$3,000.00	\$3,000.00	\$0.00
01	9200	999		Reserve for Transfers	\$45,579.36	\$371,694.48	(\$417,273.84)	\$0.00	\$0.00	\$0.00
01	9400	201		Social Security (OAS)	\$32,000.00		\$6,000.00	\$38,000.00	\$32,892.93	\$5,107.07
01	9400	202		Retirement Contribution	\$90,000.00		\$49,894.21	\$139,894.21	\$124,471.02	\$15,423.19
01	9400	204		Life Insurance	\$8,000.00		\$2,000.00	\$10,000.00	\$8,478.12	\$1,521.88
01	9400	205		Health Insurance	\$220,000.00		\$65,800.00	\$285,800.00	\$284,593.34	\$1,206.66
01	9400	206		Dental Insurance	\$10,000.00		(\$8,981.18)	\$1,018.82	\$1,018.82	\$0.00
01	9400	208		Unemployment Insurance	\$7,000.00			\$7,000.00	\$6,240.37	\$759.63
01	9400	209		Worker's Compensation	\$30,000.00		(\$19,066.03)	\$10,933.97	\$10,933.97	\$0.00
01	9400	212		HB810 Training Pay	\$1,000.00			\$1,000.00	\$0.00	\$1,000.00
02	6105	102		Road Supervisor's Salary	\$29,751.00			\$29,751.00	\$29,344.26	\$406.74
02	6105	143		Road Workers Salaries	\$470,000.00			\$470,000.00	\$460,209.88	\$9,790.12
02	6105	311		Contracted Construction-Roads	\$0.00		\$90,000.00	\$90,000.00	\$84,339.95	\$5,660.05
02	6105	323		Engineering Services	\$0.00		\$4,731.75	\$4,731.75	\$4,731.75	\$0.00
02	6105	326		Financial Advisory Fees	\$0.00		\$15,250.00	\$15,250.00	\$15,250.00	\$0.00
02	6105	332		Legal Fees	\$0.00		\$10,000.00	\$10,000.00	\$10,000.00	\$0.00
02	6105	405		Blacktop	\$200,000.00		\$1,361,400.00	\$1,561,400.00	\$1,525,464.69	\$35,935.31
02	6105	411		Janitorial Supplies	\$2,000.00			\$2,000.00	\$122.09	\$1,877.91
2007				4Q	Page 3 of 10			Thursday, January 08, 2009		



**KNOTT COUNTY**  
**FOURTH QUARTER FINANCIAL STATEMENT**  
**For The Year Ended June 30, 2007**  
**(Continued)**

Fund	Major	Minor	Sub	Description	Budget Original	Amendment	Transfers	Total Available	Claims Allowed	Free Balance
02	6105	445		Office Supplies	\$2,500.00		\$100.00	\$2,600.00	\$2,575.16	\$24.84
02	6105	447		Road Materials	\$100,000.00		\$75,000.00	\$175,000.00	\$149,149.16	\$25,850.84
02	6105	499		Other Materials and Supplies	\$1,000.00		\$14,000.00	\$15,000.00	\$13,307.37	\$1,692.63
02	6105	573		Telephone	\$3,000.00			\$3,000.00	\$2,565.53	\$434.47
02	6105	578		Utilities	\$6,000.00			\$6,000.00	\$5,456.44	\$543.56
02	6105	703		Communication Equipment	\$24,000.00		\$5,452.00	\$29,452.00	\$29,452.00	\$0.00
02	6105	713		Equipment	\$0.00		\$18,000.00	\$18,000.00	\$18,000.00	\$0.00
02	6105	731		Right of Way	\$1,000.00			\$1,000.00	\$365.00	\$635.00
02	6107	447		Emergency Money - 3% CRA	\$25,100.00			\$25,100.00	\$0.00	\$25,100.00
02	7200	601		Road Bond Issue-Principal	\$85,000.00			\$85,000.00	\$0.00	\$85,000.00
02	7200	605		Road Bond Issue-Interest	\$4,675.00			\$4,675.00	\$0.00	\$4,675.00
02	7401	607		Bond Anticipation Note Interest	\$0.00		\$57,500.00	\$57,500.00	\$57,456.25	\$43.75
02	7700	602		Equipment Lease Purchases-Prin	\$13,000.00			\$13,000.00	\$12,645.90	\$354.10
02	7700	606		Equipment Lease Purchases-Inte	\$750.00			\$750.00	\$617.94	\$132.06
02	9200	999		Reserve for Transfers	\$252,921.00	\$1,466,662.20	(\$1,699,487.42)	\$20,095.78	\$0.00	\$20,095.78
02	9400	201		Social Security Contribution	\$35,000.00			\$35,000.00	\$33,665.91	\$1,334.09
02	9400	202		Retirement Contribution	\$70,000.00			\$70,000.00	\$62,888.40	\$7,111.60
02	9400	204		Life Insurance	\$5,000.00			\$5,000.00	\$4,092.76	\$907.24
02	9400	205		Health Insurance	\$145,000.00			\$145,000.00	\$141,430.55	\$3,569.45
02	9400	206		Dental Insurance	\$8,000.00			\$8,000.00	\$452.03	\$7,547.97
02	9400	208		Unemployment Insurance	\$8,000.00			\$8,000.00	\$6,303.24	\$1,696.76
02	9400	209		Workers' Compensation	\$35,000.00		\$48,053.67	\$83,053.67	\$83,053.67	\$0.00
03	5101	101		Jailer's Salary	\$49,556.00			\$49,556.00	\$49,555.48	\$0.52
03	5101	333		Maintenance Agreements	\$500.00			\$500.00	\$0.00	\$500.00
03	5101	334		Building Maintenance	\$500.00			\$500.00	\$0.00	\$500.00
03	5101	336		Equipment Maintenance/Repairs	\$500.00			\$500.00	\$100.00	\$400.00
03	5101	340		Vehicle Maintenance and Repairs	\$500.00			\$500.00	\$311.45	\$188.55
03	5101	411		Janitorial Supplies	\$500.00			\$500.00	\$0.00	\$500.00
03	5101	429		Gasoline	\$0.00		\$500.00	\$500.00	\$47.35	\$452.65
03	5101	445		Office Supplies	\$500.00		\$1,000.00	\$1,500.00	\$865.50	\$634.50
03	5101	499		Other Materials & Supplies	\$500.00		\$1,500.00	\$2,000.00	\$1,348.75	\$651.25
03	5101	549		Medical Services	\$100,000.00		\$30,000.00	\$130,000.00	\$113,392.84	\$16,607.16
03	5101	550		Medical Supplies	\$0.00		\$500.00	\$500.00	\$30.05	\$469.95
03	5101	573		Telephone	\$2,000.00		\$500.00	\$2,500.00	\$2,349.60	\$150.40
03	5101	576		Travel	\$500.00			\$500.00	\$0.00	\$500.00
03	5101	578		Utilities	\$8,000.00			\$8,000.00	\$7,147.33	\$852.67
03	5101	723		Vehicles	\$0.00		\$4,500.00	\$4,500.00	\$4,500.00	\$0.00
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**KNOTT COUNTY**  
**FOURTH QUARTER FINANCIAL STATEMENT**  
**For The Year Ended June 30, 2007**  
**(Continued)**

Fund	Major	Minor	Sub	Description	Budget Original	Amendment	Transfers	Total Available	Claims Allowed	Free Balance
03	5102	314		Contracts with Government Agen	\$300,000.00		\$1,000.00	\$301,000.00	\$300,905.64	\$94.36
03	7500	603		Bank of New York - Principal	\$30,000.00			\$30,000.00	\$30,000.00	\$0.00
03	7500	607		Bank of New York - Interest	\$8,000.00			\$8,000.00	\$7,962.50	\$37.50
03	7600	601		KY River Reg Jail Bond Prin	\$38,750.00		\$2,500.00	\$41,250.00	\$41,250.00	\$0.00
03	7600	605		KY River Reg Jail Bond Int	\$64,000.00			\$64,000.00	\$63,519.39	\$480.61
03	9100	525		Property Liability Insurance	\$0.00		\$37,193.75	\$37,193.75	\$37,193.75	\$0.00
03	9100	551		Association Dues	\$300.00			\$300.00	\$0.00	\$300.00
03	9200	999		Reserve for Transfers	\$146,044.00	\$10,524.02	(\$91,518.88)	\$65,049.14	\$0.00	\$65,049.14
03	9400	201		Social Security (OAS)	\$3,500.00			\$3,500.00	\$3,425.34	\$74.66
03	9400	202		Retirement Contribution	\$6,500.00		\$500.00	\$7,000.00	\$6,864.98	\$135.02
03	9400	204		Life Insurance	\$300.00		\$100.00	\$400.00	\$327.04	\$72.96
03	9400	205		Health Insurance	\$10,000.00		\$11,000.00	\$21,000.00	\$20,819.29	\$180.71
03	9400	206		Dental Insurance	\$900.00			\$900.00	\$34.54	\$865.46
03	9400	208		Unemployment Insurance	\$0.00		\$725.13	\$725.13	\$725.13	\$0.00
03	9400	209		Workers' Compensation	\$1,000.00			\$1,000.00	\$0.00	\$1,000.00
03	9400	212		HB810 Training Pay	\$750.00			\$750.00	\$0.00	\$750.00
04	5015	435		Sheriff Department Equipment	\$0.00		\$30,032.59	\$30,032.59	\$29,448.04	\$584.55
04	5015	507		Sheriff Department Assistance	\$250,000.00		\$25,000.00	\$275,000.00	\$274,684.25	\$315.75
04	5020	101		Coroner Salary	\$20,400.00			\$20,400.00	\$20,399.86	\$0.14
04	5020	103		Deputy Coroner Salaries	\$6,000.00			\$6,000.00	\$5,999.76	\$0.24
04	5020	210		Coroner-Travel Expenses	\$3,600.00			\$3,600.00	\$3,600.00	\$0.00
04	5020	308		Autopsy Services	\$4,000.00			\$4,000.00	\$1,600.00	\$2,400.00
04	5020	445		Coroner Office Supplies	\$3,500.00			\$3,500.00	\$3,130.63	\$369.37
04	5020	569		Coroner Training & Conferences	\$0.00		\$300.00	\$300.00	\$292.21	\$7.79
04	5020	576		Coroner Travel Expense	\$0.00		\$300.00	\$300.00	\$294.20	\$5.80
04	5075	499		Economic Dev Other Materials &	\$0.00		\$17,000.00	\$17,000.00	\$16,156.19	\$843.81
04	5110	101		Constable Salaries	\$19,201.00			\$19,201.00	\$19,200.48	\$0.52
04	5110	398		Service of Summons & Citations	\$5,000.00		\$2,440.00	\$7,440.00	\$7,440.00	\$0.00
04	5120	507		Fire Department Contracts	\$0.00		\$27,500.00	\$27,500.00	\$22,349.00	\$5,151.00
04	5121	521		Fire Insurance	\$50,000.00		\$1,597.52	\$51,597.52	\$51,597.52	\$0.00
04	5121	574		Volunteer Firefighter Training	\$0.00		\$500.00	\$500.00	\$500.00	\$0.00
04	5130	507		Rescue Squad Contributions	\$2,500.00		\$50.00	\$2,550.00	\$2,550.00	\$0.00
04	5135	105		Asst. EM Director - FEMA	\$26,000.00		\$100.00	\$26,100.00	\$26,091.78	\$8.22
04	5135	107		EM Director Salary	\$30,420.00			\$30,420.00	\$26,169.72	\$4,250.28
04	5135	445		EMS - Office Supplies	\$4,000.00			\$4,000.00	\$3,056.99	\$943.01
04	5135	573		EM - Telephone	\$4,000.00			\$4,000.00	\$2,331.61	\$1,668.39
04	5135	574		EM - Management Training	\$1,000.00			\$1,000.00	\$0.00	\$1,000.00
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**KNOTT COUNTY**  
**FOURTH QUARTER FINANCIAL STATEMENT**  
**For The Year Ended June 30, 2007**  
**(Continued)**

Fund	Major	Minor	Sub	Description	Budget Original	Amendment	Transfers	Total Available	Claims Allowed	Free Balance
04	5135	578		EM - Utilities	\$0.00		\$350.00	\$350.00	\$240.15	\$109.85
04	5135	725		EM - Office Equipment	\$1,000.00			\$1,000.00	\$0.00	\$1,000.00
04	5136	105		Homeland Security Assistant	\$0.00		\$16,570.00	\$16,570.00	\$16,565.51	\$4.49
04	5136	107		Homeland Security Director	\$0.00		\$12,400.00	\$12,400.00	\$11,690.73	\$709.27
04	5136	445		Homeland Security Office Supplie	\$0.00		\$1,000.00	\$1,000.00	\$865.80	\$134.20
04	5136	573		Homeland Security Telephone	\$0.00		\$500.00	\$500.00	\$190.47	\$309.53
04	5140	739		Ambulance Medical Equipment	\$11,000.00		(\$11,000.00)	\$0.00	\$0.00	\$0.00
04	5175	903		Public Defender	\$2,500.00			\$2,500.00	\$2,206.00	\$294.00
04	5205	102		Dog Warden	\$24,440.00		\$100.00	\$24,540.00	\$24,531.78	\$8.22
04	5205	340		Vehicle Repairs	\$500.00			\$500.00	\$0.00	\$500.00
04	5205	399		Animal Shelter Support	\$15,000.00			\$15,000.00	\$15,000.00	\$0.00
04	5205	445		Dog Warden-Office Supplies	\$200.00			\$200.00	\$146.75	\$53.25
04	5205	531		Dog Warden Bond for Official	\$200.00			\$200.00	\$111.65	\$88.35
04	5205	573		Dog Warden-Telephone	\$500.00			\$500.00	\$447.31	\$52.69
04	5212	105		Ecology Officer Assistant	\$0.00		\$10,260.00	\$10,260.00	\$10,256.25	\$3.75
04	5212	106		Ecology Officer Salary	\$31,640.00		\$100.00	\$31,740.00	\$31,731.70	\$8.30
04	5212	302		Ecology Office Advertising	\$2,000.00			\$2,000.00	\$0.00	\$2,000.00
04	5212	323		Ecology Office Engineering	\$0.00		\$1,000.00	\$1,000.00	\$856.90	\$143.10
04	5212	340		Ecology Office Vehicle Repairs	\$0.00		\$50.00	\$50.00	\$49.67	\$0.33
04	5212	348		Southern Appalachian Recycling	\$5,000.00			\$5,000.00	\$0.00	\$5,000.00
04	5212	445		Ecology Office Supplies	\$1,000.00		\$2,222.00	\$3,222.00	\$3,221.99	\$0.01
04	5212	468		County Cleanups-Dumping Fees	\$10,000.00		\$1,700.00	\$11,700.00	\$11,662.31	\$37.69
04	5212	573		Ecology Office Telephone	\$1,000.00			\$1,000.00	\$886.25	\$113.75
04	5212	576		Travel	\$500.00			\$500.00	\$250.85	\$249.15
04	5212	739		Solid Waste Equipment	\$0.00		\$10,000.00	\$10,000.00	\$9,999.98	\$0.02
04	5212	742		Solid Waste Buildings	\$0.00		\$25,990.00	\$25,990.00	\$25,990.00	\$0.00
04	5220	348		Water System Support	\$0.00		\$5,045.00	\$5,045.00	\$5,045.00	\$0.00
04	5220	743		KC Water District Projects	\$0.00		\$30,150.00	\$30,150.00	\$19,239.48	\$10,910.52
04	5235	548		Stream/Dump Cleanup	\$18,000.00		\$51,360.00	\$69,360.00	\$69,353.39	\$6.61
04	5305	106		Senior Citizens Program Wages	\$160,000.00			\$160,000.00	\$157,163.46	\$2,836.54
04	5305	340		Senior Citizens Vehicle Maintena	\$2,000.00			\$2,000.00	\$0.00	\$2,000.00
04	5305	425		Senior Citizens Program Food	\$115,000.00		\$6,000.00	\$121,000.00	\$120,559.75	\$440.25
04	5305	507		Senior Citizens Program Support	\$35,000.00		(\$24,607.99)	\$10,392.01	\$3,391.00	\$7,001.01
04	5315	348		Youth Activities Support	\$2,500.00		\$18,500.00	\$21,000.00	\$20,900.65	\$99.35
04	5315	467		Youth Activities Supplies	\$10,000.00			\$10,000.00	\$3,268.11	\$6,731.89
04	5315	551		Youth Activities Membership	\$0.00		\$2,045.00	\$2,045.00	\$2,045.00	\$0.00
04	5325	398		Cemeteries Contracted Services	\$0.00		\$3,345.00	\$3,345.00	\$3,345.00	\$0.00
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**KNOTT COUNTY**  
**FOURTH QUARTER FINANCIAL STATEMENT**  
**For The Year Ended June 30, 2007**  
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Fund	Maj.	Min.	Suf.	Description	Budget Original	Amendment	Transfers	Total Available	Claims Allowed	Free Balance
04	5330	366		Solid Waste Assistance	\$3,000.00		\$5,118.49	\$8,118.49	\$8,062.57	\$55.92
04	5330	515		General Charity	\$500.00			\$500.00	\$0.00	\$500.00
04	5340	107		Carrie Comm. Center Director	\$0.00		\$9,500.00	\$9,500.00	\$9,134.63	\$365.37
04	5340	595		Social Services Educ. Program	\$0.00		\$1,000.00	\$1,000.00	\$1,000.00	\$0.00
04	5401	107		Youth Activities Director	\$24,440.00		\$10.00	\$24,450.00	\$24,446.90	\$3.10
04	5401	107		County Parks Director	\$29,800.00		\$1,650.00	\$31,450.00	\$31,443.92	\$6.08
04	5401	107		Sports Complex Director	\$0.00		\$12,000.00	\$12,000.00	\$11,690.73	\$309.27
04	5401	143		Parks Department Wages	\$160,000.00		\$49,660.00	\$209,660.00	\$209,653.68	\$6.32
04	5401	144		Public Works Coordinator	\$24,440.00		\$100.00	\$24,540.00	\$24,531.78	\$8.22
04	5401	171		Park Attendant	\$0.00		\$2,750.00	\$2,750.00	\$2,750.00	\$0.00
04	5401	331		Park Leases	\$0.00		\$4,000.00	\$4,000.00	\$3,937.50	\$62.50
04	5401	348		County Parks Maintenance	\$20,000.00		\$31,150.00	\$51,150.00	\$51,144.95	\$5.05
04	5401	573		County Parks Telephone	\$1,800.00		\$1,500.00	\$3,300.00	\$2,826.38	\$473.62
04	5401	578		County Parks Utilities	\$22,000.00		\$48,000.00	\$70,000.00	\$68,993.95	\$1,006.05
04	5401	586		Upper Carr Community Center	\$0.00		\$2,500.00	\$2,500.00	\$2,500.00	\$0.00
04	5401	718		County Parks Construction Projec	\$100,000.00		(\$21,000.00)	\$79,000.00	\$48,000.00	\$31,000.00
04	5401	721		County Parks Equipment	\$0.00		\$11,175.70	\$11,175.70	\$11,174.61	\$1.09
04	5405	106		Human Svcs. Center-Salaries/Wa	\$73,000.00		\$34,000.00	\$107,000.00	\$103,257.38	\$3,742.62
04	5405	107		Human Svcs. Center Director Sal	\$32,140.00		\$1,600.00	\$33,740.00	\$33,719.30	\$20.70
04	5405	333		HSC Maintenance Agreements	\$4,000.00			\$4,000.00	\$3,840.76	\$159.24
04	5405	334		HSC Building Maintenance	\$10,000.00		\$15,000.00	\$25,000.00	\$24,645.63	\$354.37
04	5405	340		HSC-Vehicle Repairs	\$1,000.00			\$1,000.00	\$150.00	\$850.00
04	5405	411		HSC Janitorial Supplies	\$3,000.00			\$3,000.00	\$2,907.75	\$92.25
04	5405	445		HSC Office Supplies	\$6,500.00			\$6,500.00	\$5,306.71	\$1,193.29
04	5405	467		HSC Recreational Supplies	\$5,500.00			\$5,500.00	\$1,426.73	\$4,073.27
04	5405	499		HSC Other Materials	\$1,000.00		\$9,000.00	\$10,000.00	\$9,345.51	\$654.49
04	5405	573		HSC Telephone	\$4,000.00		\$1,000.00	\$5,000.00	\$4,209.50	\$790.50
04	5405	576		Travel	\$4,000.00			\$4,000.00	\$544.32	\$3,455.68
04	5405	578		HSC Utilities	\$25,000.00			\$25,000.00	\$21,494.95	\$3,505.05
04	5405	723		HSC Vehicle Expense	\$200.00		\$4,800.00	\$5,000.00	\$4,981.00	\$19.00
04	5410	106		Library Assistant Wages	\$35,360.00		\$16,300.00	\$51,660.00	\$51,581.60	\$78.40
04	5410	185		Public Librarian Salary	\$22,880.00		\$100.00	\$22,980.00	\$22,971.78	\$8.22
04	5410	541		Public Library Support	\$10,000.00			\$10,000.00	\$407.00	\$9,593.00
04	5420	105		Public Relations Tourism Asst.	\$0.00		\$5,510.00	\$5,510.00	\$5,501.55	\$8.45
04	5420	107		ATV Training Supervisor	\$0.00		\$12,000.00	\$12,000.00	\$11,337.71	\$662.29
04	5420	107		Public Relations Tourism Dlr	\$26,000.00		\$100.00	\$26,100.00	\$26,091.78	\$8.22
04	5420	348		Tourism Program Support	\$0.00		\$9,000.00	\$9,000.00	\$8,837.04	\$162.96
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**KNOTT COUNTY**  
**FOURTH QUARTER FINANCIAL STATEMENT**  
**For The Year Ended June 30, 2007**  
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Fund	MaJ	Min	Suf	Description	Budget Original	Amendment	Transfers	Total Available	Claims Allowed	Free Balance
04	5420	505		Tourism-Chamber of Commerce	\$0.00		\$1,500.00	\$1,500.00	\$1,370.26	\$129.74
04	5420	507		Tourism Committee Support	\$1,000.00			\$1,000.00	\$848.00	\$152.00
04	5420	578		Tourism Utilities	\$0.00		\$300.00	\$300.00	\$27.12	\$272.88
04	5425	348		Festivals & Celebrations	\$4,500.00		\$16,502.00	\$21,002.00	\$20,995.00	\$7.00
04	6105	311		Contracted Construction-Roads	\$150,000.00		\$405,824.64	\$555,824.64	\$555,449.64	\$375.00
04	6105	312		Contracted Construction-Bridges	\$150,000.00			\$150,000.00	\$140,548.00	\$9,452.00
04	6105	364		Land & Equip Rents-County Gara	\$8,000.00		\$13,000.00	\$21,000.00	\$20,939.76	\$60.24
04	6105	443		Motor Vehicle and Equipment Par	\$60,000.00		\$30,000.00	\$90,000.00	\$84,347.98	\$5,652.02
04	6105	447		Road Materials & Supplies	\$225,000.00		\$24,000.00	\$249,000.00	\$248,487.97	\$512.03
04	6105	455		Petroleum Products	\$150,000.00		\$27,000.00	\$177,000.00	\$176,633.41	\$366.59
04	6105	713		Highway/Road Equipment	\$17,400.00		\$200.00	\$17,600.00	\$17,583.51	\$16.49
04	7500	603		Equipment Prin. Payments	\$38,000.00			\$38,000.00	\$34,383.15	\$3,616.85
04	7500	607		Equipment Interest	\$5,000.00			\$5,000.00	\$4,900.60	\$99.40
04	7700	602		EM Vehicle - Principal	\$5,048.00			\$5,048.00	\$5,047.41	\$0.59
04	7700	603		SC Van-Lease Purch., Principal	\$4,150.00			\$4,150.00	\$4,146.16	\$3.84
04	7700	606		EM Vehicle - Interest	\$500.00			\$500.00	\$302.74	\$197.26
04	7700	607		SC Van-Lease Purch., Interest	\$500.00		\$100.00	\$600.00	\$577.21	\$22.79
04	8003	741		Bridge Material	\$40,000.00		\$70,000.00	\$110,000.00	\$105,301.86	\$4,698.14
04	9100	531		Bonds for Officials	\$5,000.00			\$5,000.00	\$862.75	\$4,137.25
04	9100	553		KRADD Dues	\$12,755.00		(\$12,755.00)	\$0.00	\$0.00	\$0.00
04	9200	999		Reserve for Transfers	\$65,986.00	\$1,165,993.15	(\$1,213,594.95)	\$18,384.20	\$0.00	\$18,384.20
04	9400	201		Social Security (OAS)	\$48,000.00		\$19,000.00	\$67,000.00	\$63,919.72	\$3,080.28
04	9400	202		Retirement Contribution	\$80,000.00		\$27,000.00	\$107,000.00	\$102,146.44	\$4,853.56
04	9400	204		Life Insurance	\$8,000.00		\$1,500.00	\$9,500.00	\$8,821.54	\$678.46
04	9400	205		Health Insurance	\$240,000.00		\$55,000.00	\$295,000.00	\$290,481.87	\$4,518.13
04	9400	206		Dental Insurance	\$10,000.00			\$10,000.00	\$719.83	\$9,280.17
04	9400	208		Unemployment Insurance	\$15,000.00			\$15,000.00	\$8,974.06	\$6,025.94
04	9400	209		Workers' Compensation	\$48,000.00			\$48,000.00	\$34,636.54	\$13,363.46
06	5015	735		Sheriff Department Vehicles	\$0.00		\$100,000.00	\$100,000.00	\$100,000.00	\$0.00
06	5121	507		Volunteer Fire Depart Support	\$0.00		\$160,000.00	\$160,000.00	\$136,862.23	\$23,137.77
06	5130	507		Fire & Rescue Squad Support	\$0.00		\$8,100.00	\$8,100.00	\$6,093.59	\$2,006.41
06	5220	323		Water System Engineering	\$0.00		\$50,000.00	\$50,000.00	\$29,399.82	\$20,600.18
06	5220	348		Water System Program Support	\$0.00		\$307,600.03	\$307,600.03	\$306,600.03	\$1,000.00
06	5220	742		Water Plant Construction	\$0.00		\$1,000.00	\$1,000.00	\$1,000.00	\$0.00
06	5220	743		Water System Transport Lines	\$0.00		\$520,000.00	\$520,000.00	\$519,999.58	\$0.42
06	5340	315		Knott Drug Abuse Council Draws	\$40,000.00			\$40,000.00	\$24,999.90	\$15,000.10
06	5401	305		Knott Youth Ctr Architect Serv	\$0.00		\$97,968.31	\$97,968.31	\$97,968.31	\$0.00
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**KNOTT COUNTY**  
**FOURTH QUARTER FINANCIAL STATEMENT**  
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Fund	Maj	Min	Suf	Description	Budget Original	Amendment	Transfers	Total Available	Claims Allowed	Free Balance
06	5401	334		Park Building Maint & Repairs	\$0.00		\$271,000.00	\$271,000.00	\$270,926.25	\$73.75
06	5405	323		Recreation Program Engineering	\$0.00		\$72,000.00	\$72,000.00	\$72,000.00	\$0.00
06	5405	334		HSC-Building Maint. Project	\$0.00		\$17,586.70	\$17,586.70	\$17,586.70	\$0.00
06	5410	348		Public Library Support	\$0.00		\$104,000.00	\$104,000.00	\$103,144.01	\$855.99
06	5435	348		Arts/Crafts-Sm. Business Cap.	\$500,000.00		(\$155,000.00)	\$345,000.00	\$250,000.00	\$95,000.00
06	5435	742		Arts/Crafts Buildings & Const	\$0.00		\$451,691.00	\$451,691.00	\$446,400.00	\$5,291.00
06	8001	305		Buildings Architect Services	\$0.00		\$29,651.14	\$29,651.14	\$29,651.14	\$0.00
06	8001	742		Buildings and Construction	\$4,900,000.00		(\$3,967,447.36)	\$932,552.64	\$928,281.71	\$4,270.93
06	8099	323		Engineering Services	\$0.00		\$137,000.00	\$137,000.00	\$137,000.00	\$0.00
06	8099	373		Contracted Construction	\$0.00		\$1,995,080.79	\$1,995,080.79	\$1,923,244.65	\$71,836.14
06	8099	718		Construction Projects	\$0.00		\$493,106.09	\$493,106.09	\$487,756.16	\$5,349.93
06	9200	999		Reserve for Transfers	\$70,000.00	\$654,285.92	(\$693,336.70)	\$30,949.22	\$0.00	\$30,949.22
07	5220	445		Water System Office Supplies	\$0.00		\$1.00	\$1.00	\$1.00	\$0.00
07	9200	999		Reserve for Transfers	\$545.98		(\$1.00)	\$544.98	\$0.00	\$544.98
08	9200	999		Reserve for Transfers	\$55,100.00	\$671.74		\$55,771.74	\$0.00	\$55,771.74
12	5150	513		Forest Fire Prevention	\$5,095.00		\$2,621.00	\$7,716.00	\$7,716.00	\$0.00
12	9200	999		Reserve for Transfers	\$1,380.00	\$4,159.49	(\$2,621.00)	\$2,918.49	\$0.00	\$2,918.49
75	5135	551		Emergency Management Member	\$95.00		\$25.00	\$120.00	\$120.00	\$0.00
75	5145	107		E-911 Coordinator Salary	\$27,040.00		\$100.00	\$27,140.00	\$27,131.78	\$8.22
75	5145	314		Regional Program Support	\$50,000.00			\$50,000.00	\$41,737.33	\$8,262.67
75	5145	315		Contracts with Private Agency-Pa	\$1,200.00			\$1,200.00	\$1,200.00	\$0.00
75	5145	333		Maintenance Agreements	\$5,000.00			\$5,000.00	\$4,500.00	\$500.00
75	5145	340		Vehicle Maintenance	\$750.00			\$750.00	\$71.00	\$679.00
75	5145	445		Office Supplies	\$5,000.00			\$5,000.00	\$3,018.08	\$1,981.92
75	5145	499		Other Materials & Supplies	\$1,000.00			\$1,000.00	\$471.89	\$528.11
75	5145	573		Telephone	\$15,000.00			\$15,000.00	\$13,519.83	\$1,480.17
75	5145	573		Travel	\$500.00			\$500.00	\$122.39	\$377.61
75	5145	703		Communication Equipment	\$2,000.00		\$2,200.00	\$4,200.00	\$4,199.00	\$1.00
75	7500	603		Fifth Third Bank-Principal	\$10,000.00			\$10,000.00	\$10,000.00	\$0.00
75	7500	607		Fifth Third Bank- Interest	\$2,405.00			\$2,405.00	\$2,080.00	\$325.00
75	7700	603		Leased Vehicle - Principal	\$3,976.00			\$3,976.00	\$3,473.13	\$502.87
75	7700	607		Leased Vehicle - Interest	\$50.00			\$50.00	\$46.12	\$3.88
75	9200	999		Reserve for Transfers	\$8,184.00	\$7,880.45	(\$2,325.00)	\$13,739.45	\$0.00	\$13,739.45
75	9400	201		Social Security (OAS)	\$2,000.00			\$2,000.00	\$1,856.14	\$143.86
75	9400	202		Retirement Contribution	\$4,000.00			\$4,000.00	\$3,495.01	\$504.99
75	9400	204		Life Insurance	\$400.00			\$400.00	\$240.04	\$159.96
75	9400	205		Health Insurance	\$8,000.00			\$8,000.00	\$5,523.60	\$2,476.40
2007			4Q							

**KNOTT COUNTY**  
**FOURTH QUARTER FINANCIAL STATEMENT**  
**For The Year Ended June 30, 2007**  
**(Continued)**

Fund	MaJ	Min	Suf	Description	Budget-Original	Amendment	Transfers	Total Available	Claims Allowed	Free Balance
75	9400	206		Dental Insurance	\$500.00			\$500.00	\$16.44	\$483.56
75	9400	208		Unemployment Insurance	\$1,000.00			\$1,000.00	\$405.35	\$594.65
75	9400	209		Workers Compensation	\$2,500.00			\$2,500.00	\$0.00	\$2,500.00
76	7100	605		Interest on Bonds	\$0.00		\$211,250.00	\$211,250.00	\$211,250.00	\$0.00
76	8001	327		Youth Ctr-Fiscal Agent Charges	\$0.00		\$126,500.00	\$126,500.00	\$126,500.00	\$0.00
76	8001	742		Youth & Recreation Center Const	\$0.00		\$7,000,000.00	\$7,000,000.00	\$4,744,947.16	\$2,255,052.84
76	9200	999		Reserve for Transfers	\$0.00	\$8,000,000.00	(\$7,337,750.00)	\$662,250.00	\$0.00	\$662,250.00
99	7200	601		Principal on Bonds	\$0.00		\$85,000.00	\$85,000.00	\$85,000.00	\$0.00
99	7200	605		Interest on Bonds	\$0.00		\$4,675.00	\$4,675.00	\$4,378.50	\$296.50
99	9200	999		Reserve for Transfers	\$0.00	\$98,364.31	(\$89,675.00)	\$8,689.31		\$8,689.31
<b>TOTALS</b>					<b>\$12,733,338.40</b>	<b>\$11,780,235.76</b>	<b>\$0.00</b>	<b>\$24,513,574.16</b>	<b>\$20,632,374.40</b>	<b>\$3,881,199.76</b>

**KNOTT COUNTY**  
**FOURTH QUARTER FINANCIAL STATEMENT**  
**For The Year Ended June 30, 2007**  
**(Continued)**



**Department for Local Government**

1024 Capital Center Drive, Suite 340

Frankfort, Kentucky 40601

(502) 573-2382 or (800) 346-5606

**Liabilities\_ST Data**

**060 - Knott**

Fund	Maj	Min	Suffix	Description	Total	Balance	Issue Information		Payments Due	
02							Term		Total	
PRI	7401	503		ROAD BOND ANTICIPATION	\$1,500,000.00	\$1,500,000.00	Rate		Res. Earn.	Next 07/01/2007
INT	7401	503		NOTES	\$56,575.00	\$5,437.50	Issued	08/14/2006	Outstand.	Final 07/01/2007
TOTALS-PRI					\$1,500,000.00	\$1,500,000.00	Issues		\$1,556,575.00	
TOTALS-INT					\$56,575.00	\$5,437.50	Res. Earn.			
							Outstand.		\$1,505,437.50	



**KNOTT COUNTY**  
**FOURTH QUARTER FINANCIAL STATEMENT**  
**For The Year Ended June 30, 2007**  
**(Continued)**



**Department for Local Government**

1024 Capital Center Drive, Suite 340

Frankfort, Kentucky 40601

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**Liabilities Data**

**060 - Knott**

Fund	Maj	Min	Suffix	Description	Total	Balance	Issue Information			Payments Due	
<b>01</b>							Term	180	Total	\$47,580.00	
PRI	7600	699		FERN TAYLOR	\$47,580.00	\$35,685.00	Rate	00.0000	Res. Earn.		Next 07/13/2007
INT					\$10,000.00	\$10,000.00	Issued	01/01/1975	Outstand.	\$34,892.00	Final 06/30/2018
<b>02</b>							Term	48	Total	\$53,055.36	
PRI	7700	602		DUMP TRUCK	\$48,992.00	\$9,817.97	Rate	00.0000	Res. Earn.		Next 08/01/2007
INT	7700	606			\$3,063.56	\$109.91	Issued	01/30/2004	Outstand.	\$9,947.88	Final 03/04/2008
<b>04</b>							Term	48	Total	\$21,792.00	
PRI	7700	602		VEHICLE	\$19,990.00	\$6,181.37	Rate	00.0000	Res. Earn.		Next 08/01/2007
INT	7700	606			\$1,802.00	\$174.63	Issued	10/04/2004	Outstand.	\$6,356.00	Final 08/01/2008
<b>04</b>							Term	48	Total	\$18,502.08	
PRI	7700	603		VAN	\$16,876.00	\$7,750.24	Rate	00.0000	Res. Earn.		Next 08/01/2007
INT	7700	607			\$1,628.08	\$44.42	Issued	04/01/2005	Outstand.	\$8,094.66	Final 03/31/2009
<b>01</b>							Term	36	Total	\$40,406.76	
PRI	7503	603		PICKUP TRUCK	\$36,222.00	\$32,574.15	Rate	00.0000	Res. Earn.		Next 07/09/2007
INT	7503	607			\$4,134.76	\$3,342.97	Issued	02/09/2007	Outstand.	\$35,917.12	Final 03/09/2010
<b>75</b>							Term	84	Total	\$83,593.54	
PRI	7500	603		PAGER PROJECT	\$70,000.00	\$30,000.00	Rate	00.0000	Res. Earn.		Next 10/20/2007
INT	7500	607			\$13,593.54	\$3,990.00	Issued	10/20/2003	Outstand.	\$33,990.00	Final 04/20/2010

**KNOTT COUNTY**  
**FOURTH QUARTER FINANCIAL STATEMENT**  
**For The Year Ended June 30, 2007**  
**(Continued)**

Fund	Maj	Min	Suffix	Description	Total	Balance	Term	Rate	Issue Information	Payments Due
<b>04</b>										
PRI	7500	603		GRADER	\$155,518.00	\$90,954.89	48	00.0000	Total	\$171,420.00
INT	7500	607			\$15,902.00	\$5,468.86			Res. Earn.	
							Issued	09/23/2005	Outstand.	\$96,423.75
									Next	07/01/2007
									Final	08/23/2009
<b>03</b>										
PRI	7500	603		JAIL REMODELING	\$225,000.00	\$140,000.00	84	00.0000	Total	\$262,481.66
INT	7500	607			\$37,481.66	\$17,400.00			Res. Earn.	
							Issued	01/10/2516	Outstand.	\$157,400.00
									Next	10/20/2007
									Final	05/01/2011
<b>03</b>										
PRI	7600	601		KY RIVER REGIONAL JAIL	\$1,528,750.00	\$1,336,250.00	300	00.0000	Total	\$2,641,833.75
INT	7600	605			\$1,113,088.75	\$748,998.94			Res. Earn.	
							Issued	12/01/2001	Outstand.	\$2,085,240.94
									Next	12/01/2007
									Final	12/01/2026
<b>76</b>										
PRI	7100	601		YOUTH CENTER AND ADULT WELLNESS CENTER	\$8,450,000.00	\$8,450,000.00	264	00.0000	Total	\$13,997,250.00
INT	7100	605			\$5,547,250.00	\$5,336,000.00			Res. Earn.	
							Issued	09/13/2006	Outstand.	\$13,786,000.00
									Next	09/01/2007
									Final	09/01/2028
PRI						\$10,139,213.62			Total	
INT						\$5,115,841.73			Res. Earn.	
							Issued		Outstand.	\$16,254,262.35
									Next	
									Final	
<b>TOTALS-PRI</b>					<b>\$10,598,928.00</b>	<b>\$20,278,427.24</b>				
<b>TOTALS-INT</b>					<b>\$6,736,087.15</b>	<b>\$2,231,693.46</b>				
							<b>Issues</b>		<b>\$17,337,915.15</b>	
							<b>Res. Earn.</b>			
							<b>Outstand.</b>		<b>\$32,508,524.70</b>	

**KNOTT COUNTY**  
**FOURTH QUARTER FINANCIAL STATEMENT**  
**For The Year Ended June 30, 2007**  
**(Continued)**



<p align="center"><b>Department for Local Government</b>          1024 Capital Center Drive, Suite 340          Frankfort, Kentucky 40601          (502) 573-2382 or (800) 346-5606</p>
<p align="center"><b>Liabilities_TOTAL Data</b></p>

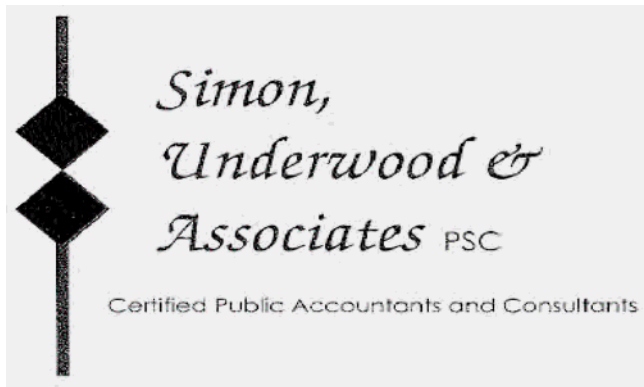
**060 - Knott**

Long Term	Short Term	Total
\$10,139,213.62	\$1,500,000.00	\$11,639,213.62

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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND  
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL  
STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**





The Honorable Randy Thompson, Knott County Judge/Executive  
Members of the Knott County Fiscal Court

Report On Internal Control Over Financial Reporting And  
On Compliance And Other Matters Based On An Audit Of Financial  
Statements Performed In Accordance With Government Auditing Standards

We were engaged to audit the financial activity contained in the Fourth Quarterly Report of Knott County, Kentucky, as of and for the year ended June 30, 2007, and have issued our report thereon dated September 15, 2008, wherein, we disclaimed an opinion on the financial statements.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Knott County's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the Fourth Quarterly Report and not for the purpose of expressing an opinion on the effectiveness of internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Knott County's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with the modified cash basis of accounting such that there is a more than remote likelihood that a misstatement of the entity's financial statement that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies described in the accompanying comments and recommendations to be significant deficiencies in internal control over financial reporting: 2007-02, 2007-04, 2007-05, 2007-08, 2007-12, 2007-15, 2007-16, 2007-17, 2007-18, 2007-19, 2007-20, and 2007-22.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statement will not be prevented or detected by the entity's internal control. Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies, and accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we consider the significant deficiencies above to be material weaknesses.

Report On Internal Control Over Financial Reporting  
And On Compliance And Other Matters Based On An Audit Of Financial  
Statements Performed In Accordance With Government Auditing Standards  
(Continued)

Compliance And Other Matters

As part of obtaining reasonable assurance about whether Knott County's Fourth Quarterly Report is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under Government Auditing Standards and which are described in the accompanying comments and recommendations as items: 2007-01, 2007-03, 2007-06, 2007-07, 2007-09, 2007-10, 2007-11, 2007-12, 2007-13, 2007-14, and 2007-21.

The Knott County Judge/Executive's responses to the comments and recommendations identified in our report are included in the accompanying comments and recommendations. We did not audit the Knott County Judge/Executive's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of management, the Knott County Fiscal Court, and the Department for Local Government and is not intended to be and should not be used by anyone other than these specified parties.

*Simon, Underwood & Associates PSC*

Simon, Underwood & Associates PSC  
Certified Public Accountants and Consultants

Louisville, Kentucky  
September 15, 2008



**KNOTT COUNTY  
COMMENTS AND RECOMMENDATIONS**

**For The Year Ended June 30, 2007**

**Note: The findings and recommendations in this audit have been repeated from the prior year audit as the County has not taken corrective action toward the previous findings. Additionally, County Judge/Executive Randy Thompson's responses to the previous year's audit have been repeated verbatim. Judge Thompson has been given an opportunity to respond to the findings and recommendations as they relate to the current year under audit, and any responses he has given in this regard have been labeled "County Judge/Executive Randy Thompson's Additional Response."**



**KNOTT COUNTY  
COMMENTS AND RECOMMENDATIONS**

**Fiscal Year Ended June 30, 2007**

**2007-01. Over \$8.2 Million In Public Funds Were Expensed For The Knott County Youth Foundation By Fiscal Court Without A Formal Agreement Between The County And The Youth Center With \$2.7 Million Being Spent Without Land Ownership**

---

Without any formal written agreement to document the transactions, Knott County Fiscal Court gave over \$8.2 million of county bond proceeds, and over \$2 million of county coal severance tax funds, to the Knott County Youth Foundation, Inc. (Foundation), a private, non-profit corporation, for a youth and recreation center project, known as the Sportsplex. Of this total amount of \$10.2 million of the county's public funds, \$2.7 million was spent by the private Foundation on the project before the private donor corporation that donated the land for the project had transferred ownership of the real property on which the project was to be built to either the fiscal court or the Foundation. On February 8, 2007, a deed transferring ownership of the land to the Foundation was recorded with the county clerk. A reversionary clause was included in the Foundation's deed that states, "if the Land and/or the Sports complex shall cease to be continuously used and properly maintained and landscaped as a public park, wellness center and/or recreation facility," at the donor corporation's option, it may cause the title to revert back to the donor corporation, and that the donor corporation will pay fair market value of the building and other improvements. The judge/executive stated that should this event occur, the fiscal court would receive the building proceeds; however, it is not so stated in the deed, which transferred title to the land from the private donor corporation to the private Foundation.

The Foundation is a private, non-profit corporation with a board of directors consisting of private citizens, including the county judge/executive, and the county coroner. The judge/executive was the incorporator of the Foundation, and serves as both a director and the president of the Foundation. The county coroner serves as both a director and the secretary of the Foundation. Thus, the judge/executive, as a public official, serves, simultaneously, as both the chief executive of the county, a public, governmental entity, and as a private director and president of a private Foundation, which has received over \$10.2 million of the county's public funds without written agreements or other formal documents to support the financial transactions between the county and the Foundation. Also, several individuals were hired and paid by the fiscal court for the center, with many receiving full-time benefits before any operating agreement existed between the Foundation and the County.

The first year bond payments, beginning September 1, 2006, are being made from the county's bond sinking fund. According to the judge/executive, the fiscal court will be making the bond payments from the county's coal severance money from which the county would earmark \$500,000 per year. The continued availability of coal severance money is subject to actions of the General Assembly, and cannot be relied upon by the county as a continual revenue source. The per-year average of principal and interest payments to be made by the county over the 20-year bond is \$636,239.

**KNOTT COUNTY  
COMMENTS AND RECOMMENDATIONS  
Fiscal Year Ended June 30, 2007  
(Continued)**

**2007-01. Over \$8.2 Million In Public Funds Were Expensed For The Knott County Youth Foundation By Fiscal Court Without A Formal Agreement Between The County And The Youth Center With \$2.7 Million Being Spent Without Land Ownership (Continued)**

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Section 171 of the Kentucky Constitution does not permit a county to expend public funds for other than public purposes. In the prior year we recommended the Attorney General and County Attorney review all transactions between the county and the Foundation relating to the Youth Center project to determine (1) whether the judge/executive's acting as both a county public official and a private corporation's president created any conflicts of interest, (2) whether actions of the judge/executive involving financial transactions of the county related to the Youth Center project comply with state laws, and (3) whether the fiscal court can lawfully fund recurring and operating costs of a facility owned by a private non-profit corporation, the Foundation, with no written agreement supporting such an arrangement. Additionally, the special warranty deed should be reviewed to determine the county's actual interest.

We also recommended that the fiscal court enter into an agreement with the Foundation related to the Youth Center project to clearly define the oversight and applicability of purchasing walls and other administrative practices, namely, the provision of insurance. Further, the agreement should also provide for the ongoing maintenance, operations and staffing of the Youth Center project.

*County Judge/Executive Randy Thompson's Prior Year Response:*

*A formal written agreement between the Knott County Youth Foundation and the Knott County Fiscal Court has been signed. The agreement grants all proceeds derived from the sale of the Sportsplex and any and all improvements to the Knott Fiscal Court, in the event the donor corporation exercises its reversionary interest in the property. The Knott Fiscal Court, while being responsible for all recurring and operating costs, would be entitled to all profits derived from the Sportsplex project. It is worth noting that representatives in the legal arm of the Governor's Office for Local Development (GOLD) have advised the County that the agreement as described complies with all state laws.*

In the current year:

We received a copy of the architectural contract directly from the contractor on April 25, 2007, as the county was unable to locate a copy. The architectural contract was dated June 1, 2005 and has had no modifications or renewals since.

A formal written lease and memorandum of agreement was adopted by the fiscal court on April 2, 2007, between the Knott County Youth Foundation and the Knott County Fiscal Court. The two page agreement vaguely defines funding, profits, rent, use, utilities, repairs and maintenance, assignment and subletting, waiver of liability, inspection, employees, and a miscellaneous section.

**KNOTT COUNTY  
COMMENTS AND RECOMMENDATIONS  
Fiscal Year Ended June 30, 2007  
(Continued)**

**2007-01. Over \$8.2 Million In Public Funds Were Expensed For The Knott County Youth Foundation By Fiscal Court Without A Formal Agreement Between The County And The Youth Center With \$2.7 Million Being Spent Without Land Ownership (Continued)**

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This agreement states that the Fiscal Court is to continue to seek funding, fund recurring and operating costs, is responsible for all utilities, keep and maintain the premises, and all employees shall be employees of the Fiscal Court for the Sportsplex on behalf of the Knott County Youth Foundation. It does not address the initial gift of bond funds or the funding of the debt service payments for the bonds issued to the Fiscal Court and subsequently given to the Knott County Youth Foundation Trust Fund for the construction of the Sportsplex.

The agreement does not clearly define who owns the building once completed construction has occurred, though it does define that Western Pocahontas Properties' Limited Partnership and Family Tree Properties have and can exercise a reversionary interest in the rights to the property upon which the building is constructed.

The agreement is executed by the Vice President of the Knott County Youth Foundation and the Judge/Executive of Knott County Fiscal Court. The President of the Knott County Youth Foundation is also the Judge/Executive of Knott County Fiscal Court and as such has a fiduciary responsibility to act on behalf of both entities' best interests. This is considered a conflict of interest.

Of the invoices submitted for payment by the Fiscal Court on behalf of the Sportsplex, only copies of invoices are received for payment. In the Fiscal Court minutes where the Sportsplex (Youth Center) invoices are submitted for approval to be paid, no official list is incorporated as part of the minutes of the meeting indicating what invoices have been approved for payment. However, a listing of each individual invoice does exist for all Fiscal Court payments as part of the minutes.

We recommend the special warranty deed be reviewed to determine the county's actual interest by the Attorney General and county attorney.

We recommend the review of all transactions relating to the lease and memorandum of agreement by the Attorney General and county attorney to determine if any legal or ethical violations have occurred. We recommend the review also consider the clarification of interests, rights, and financial obligations on behalf of both parties. We further recommend that the County Judge/Executive remove himself from all transactions presented to the Fiscal Court for the Knott County Youth Foundation and also remove himself from all transactions presented to the Knott County Youth Foundation on behalf of the Fiscal Court.

We recommend the Fiscal Court require original invoices of the Sportsplex be submitted before payment is made on behalf of the Sportsplex, and the invoices for approval by the Fiscal Court are incorporated as part of the minutes when approved. We further recommend that the Fiscal Court require audited financial statements of the Knott County Youth Foundation to be reviewed on an annual basis.

**KNOTT COUNTY**  
**COMMENTS AND RECOMMENDATIONS**  
**Fiscal Year Ended June 30, 2007**  
**(Continued)**

**2007-02.            Knott County Road Expenditures Totaling \$780,814 Could Not Be Validated**

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As a result of our test work we noted that invoices submitted by private contractors, to the Knott County Fiscal Court for paving work, from September 26, 2006 through January 23, 2007, did not contain enough detailed information to determine the validity of \$780,814 of county road expenditures. Due to the lack of records and detailed invoices, it is impossible to determine the number or location of roads paved. However, our limited testing determined that \$14,415 of county money was used to pave one private road. We also noted a 583% increase in paving expenditures for the first seven months of fiscal year 2007 over fiscal year 2006, and a 290% increase in the total amount spent on paving during the same seven month period over the combined prior three fiscal years (FY 2004, 2005 and 2006). This increase in paving was paid by using \$1.5 million of bond proceeds, and \$375,000 of Kentucky Transportation Cabinet (KTC) discretionary road funds.

The fiscal court used four road contractors to haul and lay asphalt. The total amounts paid to these contractors were \$1,552,340. One road contractor, used to pave roads to be reimbursed by the KTC discretionary road funds, submitted detail invoices that included specific details of the road names, materials used, and dates of services provided. However, the three remaining contractors' invoices did not include these details about the roads that were paved, while two invoices totaling \$30,992 stated only an estimated amount of materials used.

Section 171 of the Kentucky Constitution does not permit a county to expend public funds for private purposes. Public funds may not be used to pave private roads. In order for the fiscal court to adopt a private road into the county road system, the court must approve the road by ordinance or resolution. Our testing noted one road, Lonesome Dove Lane, that was not included on an ordinance or resolution approved by the fiscal court. Also, it should be noted this road was not included on a list of county roads provided by the KTC, or on a list of all public and private roads provided by the fiscal court's 911-Department. After the auditor met with the county judge/executive to discuss this in March 2007, the fiscal court held an emergency meeting on April 2, 2007, where it adopted 552 roads in the county road system, including the road we noted above as private.

Due to the lack of specific details on paid invoices for paving, we have no confidence in the records to provide any assurance these funds were appropriately expended. Failure to properly monitor invoices could cause payment errors, duplicate payments, or fraudulent payments.

**KNOTT COUNTY  
COMMENTS AND RECOMMENDATIONS  
Fiscal Year Ended June 30, 2007  
(Continued)**

**2007-02. Knott County Road Expenditures Totaling \$780,814 Could Not Be Validated  
(Continued)**

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We recommend fiscal court require that invoices submitted by paving contractors for payment contain detailed information to determine the validity of the charges, including names of roads paved, materials used, and dates, places, and description of services provided. Also, fiscal court should formally establish a county road program, and define a plan to specifically describe county roads or road segments, when to allow the adoption of private roads into the county road system, and list the details as to where and when roads are to be constructed and repaired, the nature and extent of such construction or repairs, and the precise method of such improvements including the basic time schedule of the improvements. Further, fiscal court should put an internal control system in place that requires detailed invoices to ensure compliance with laws and regulations and to safeguard its assets. Also, all road construction and road improvements should be accounted for and maintained for proper capital asset recording.

This matter will be referred to the Kentucky State Police, the County Attorney, and the Kentucky Transportation Cabinet for further investigation.

*County Judge/Executive Randy Thompson's Response:*

*All roads that the Knott County Fiscal Court hired the contractors to pave were paved. To verify this, a county employee personally visited and inspected every single road while it was being paved or immediately following, before it was approved for payment. The road identified by the auditors as a private road, is not a private road. This road was apparently inadvertently listed in the county's road system as private, however after having this brought to the attention of the Judge Executive, he asked the 911-road department to investigate. They reported this must have been a typo in the listing, as they could find no reason as to why this road would be listed as private. The road in question is a through-road that connects KY. Route 80 with another county road and serves several homes. During the April 2, 2007 meeting of the fiscal court, to correct this mistake and any other roads that may have been inadvertently improperly listed in the county system in the past, the 911-road department re-submitted a list of roads that the county government had previously adopted and/or maintained for several years to the fiscal court for approval.*

*In regards to some of the invoices from the paving contractors lacking specific information, we do agree, now all invoices must have more specific information before being paid by the court. However, in the instances involving these particular roads, an employee of the county or a member of the fiscal court inspected every road that was paved prior to any invoice being paid. The fiscal court does have a plan and a system for roads being adopted into the county's system for repairs and maintenance and no road is worked on unless the fiscal court approves it.*

**KNOTT COUNTY  
COMMENTS AND RECOMMENDATIONS  
Fiscal Year Ended June 30, 2007  
(Continued)**

**2007-02. Knott County Road Expenditures Totaling \$780,814 Could Not Be Validated  
(Continued)**

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*County Judge/Executive Randy Thompson's Additional Response:*

*During the Spring trial of Tammy Brewer and Hoey Dobson, Randy Campbell, one of the paving contractors hired by the Knott County Fiscal Court, admitted he used county-purchased asphalt to pave his brother's driveway without permission by the Fiscal Court or Judge Executive. During the trial of Randall Clinton Thompson, Ronnie Adams, John Mac Combs and Phillip Champion, it was discovered that Mr. Campbell also paved other drives using county-purchased asphalt without any authorization from the Fiscal Court or the Judge Executive to do so. Specifically, the testimony of Carlos Ashley established that Mr. Campbell used county-owned blacktop to pave Mr. Ashley's private drive, and Mr. Ashley paid Mr. Campbell for this paving. This unauthorized distribution of asphalt was reported to the KSP and Knott Commonwealth Attorney.*

Auditor's Reply:

The adoption of the 552 roads by the fiscal court, combined with the lack of documentation that any county official inspected every single road that was newly paved and any reconciliation of the 552 roads adopted with the private contractors invoices, reflect serious concern that the paving and road expenditures of public funds for roads recorded by Knott County Fiscal Court are questionable. With the subsequent trials, this further indicates the Knott County Fiscal Court's lack of controls in place to adequately monitor expenditures.

**2007-03. \$412,035 In Public Funds Were Used For The Knott County Adventure  
Tourism Park System (ATV Center) While On Private Property**

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Prior to February 8, 2007, the Knott County Fiscal Court spent \$412,035 on the Knott County ATV Center before a deed transferring ownership of the land on which the Center is located from private donors to the fiscal court was executed and recorded. The county clerk recorded a deed on February 8, 2007, to transfer ownership to fiscal court. We noted the deed recorded apparently did not have signatures from all of the grantor property owners.

Since the ATV Center expenditures were paid with county funds two months prior to the time the county obtained legal title to the property on which the Center is located, it would appear Section 171 of the Kentucky Constitution may have been violated. Section 171 does not permit a county to expend public funds for private purposes. In addition, the county risked \$412,035 by not obtaining land ownership prior to incurring expenditures related to the ATV Center. Also, a risk still remains due to the lack of full execution of the deed indicated by not having all of the grantors' signatures.

We recommend the Attorney General and county attorney review all transactions relating to the ATV Center to determine if any laws or regulations were violated. In addition, the county attorney should review the deed to ensure its legitimacy.



**KNOTT COUNTY  
COMMENTS AND RECOMMENDATIONS  
Fiscal Year Ended June 30, 2007  
(Continued)**

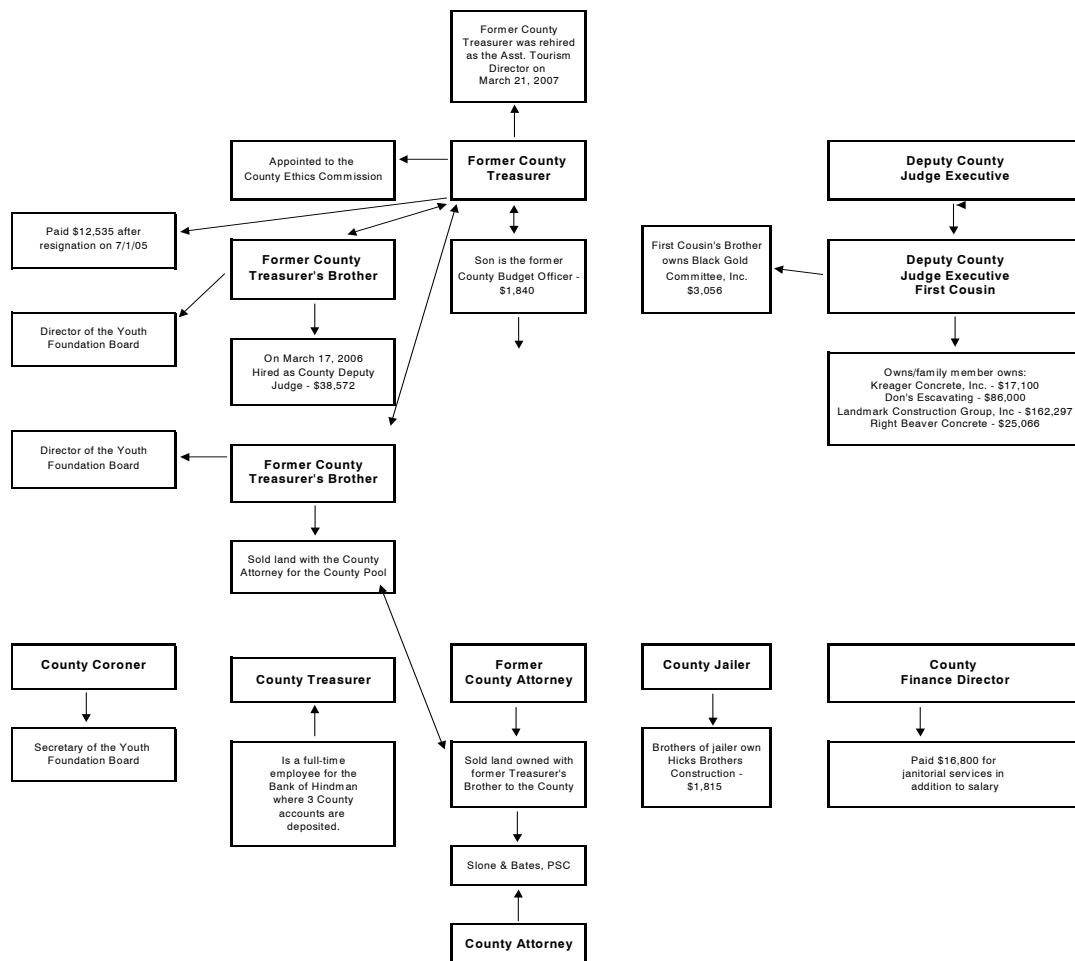
**2007-03. \$412,035 In Public Funds Were Used For The Knott County Adventure Tourism Park System (ATV Center) While On Private Property (Continued)**

*County Judge/Executive Randy Thompson's Response:*

*Our records reflect that the first payment to the contractor for work on the ATV Training Facility didn't occur until November 22, 2006. A deed from the property owner, where the ATV center was built was obtained with the first signature dated September 29, 2006 and the last one on October 18, 2006. While the deed was not recorded until February 8, 2007, the October 18, 2006 date is the only one with any legal significance since that is the date the Fiscal Court became the fee simple titleholder.*

**2007-04. All Related Party Transactions Should Be Disclosed To The Fiscal Court**

The following chart is a summary of the related parties and types of transactions, which occurred during the fiscal year:



**KNOTT COUNTY**  
**COMMENTS AND RECOMMENDATIONS**  
**Fiscal Year Ended June 30, 2007**  
**(Continued)**

**2007-04. All Related Party Transactions Should Be Disclosed To The Fiscal Court**  
**(Continued)**

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The lack of disclosure of these related party transactions to the fiscal court reflects a lack of both proper accounting practices and internal controls, which increases the risk that misstatement of financial activity and/or fraud will occur and go undetected by the county. Without proper procedures in place to mitigate this risk, the county is exposing public resources to potential misstatements and/or fraud.

We recommend the fiscal court provide adequate oversight and monitoring for related party transactions and financial activities to ensure work is completed in compliance with applicable laws and regulations.

*County Judge/Executive Randy Thompson's Response:*

*Knott County is a small county with several people being related in one way or another. The diagram presented by the auditors reflects more of the related parties in the previous administration, which was in office the first 3 months of this audit report. The members of the court are familiar with all the related parties identified and have been shown the diagram. Furthermore, it will be presented to them in an open court meeting.*

**2007-05. Knott County Paid Approximately \$7,380 In Health And Dental Insurance Benefits For Five Terminated Employees**

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During our audit, we noted five employees who remained on the county's health and dental insurance plan beyond their termination dates.

As of our report date, the following reimbursements are due to the county for benefits paid on behalf of terminated employees:

The former treasurer resigned July 1, 2005, and received \$8,316 in COBRA benefits up through February 1, 2007. Fiscal court submitted a bill for reimbursement to the former treasurer, after which she submitted an invoice to the fiscal court for \$7,800 for consulting work. Fiscal court gave credit toward her COBRA for the consulting amount. In addition, she wrote a check for \$503, leaving \$13 of reimbursement that has not been received.

The budget officer's last date worked was July 15, 2005, before going on sick leave. The budget officer is the former treasurer's son. His employment as budget officer was never terminated, and no personnel file could be found for this employee. He has received \$4,726 in COBRA benefits and has made no reimbursement. It should be noted the budget officer's total compensation for his employment was \$3,312, and he has received more in benefits than earnings.

The former judge/executive was terminated September 30, 2005 and elected COBRA benefits. He remitted reimbursements for all but \$637.

The former deputy judge/executive was terminated March 31, 2006, and elected COBRA benefits. He remitted reimbursements for all but \$1,950.

**KNOTT COUNTY**  
**COMMENTS AND RECOMMENDATIONS**  
**Fiscal Year Ended June 30, 2007**  
**(Continued)**

**2007-05. Knott County Paid Approximately \$7,380 In Health And Dental Insurance Benefits For Five Terminated Employees (Continued)**

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The former bridge foreman retired on March 24, 2006 and did not elect COBRA; however, benefits were paid for him through his COBRA election date. The county has paid a COBRA benefit of \$53 on his behalf, and no reimbursement has been requested.

U.S. Department of Labor regulations indicate that the county's health insurance plan administrator must notify the terminated employee in writing within 30 days of his right to elect COBRA coverage. The employee then must respond to this notice by the 60<sup>th</sup> day after the written notice is sent to elect COBRA, or lose all rights to COBRA benefits.

The county's administrative code does not specifically address whether COBRA benefits are retroactive to the date of termination, or the date election rights are accepted. An employee manual was not available to us to be able to determine if specific details exist.

We recommend the county monitor the termination of employees and benefits associated with those employees to avoid the loss of assets. We recommend the county attorney or Attorney General review these matters to determine whether reimbursement or further action is warranted.

*County Judge/Executive Randy Thompson's Response:*

*The Fiscal Court has calculated and sent bills to former employees who are on COBRA. In the future all former employees will be required to submit payment for insurance prior to the county paying the insurance on their behalf. Furthermore, we'll see if the insurance provider can bill the people directly. In the future, other issues in relation to this will be discussed in open court meetings.*

**2007-06. Knott County Bridge Foreman And A Bridge Employee Were Compensated As Both An Employee And An Independent Contractor To Build Bridges That Could Not Be Validated**

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The bridge foreman of Knott County was paid \$69,411 as a private, independent contractor to construct 23 bridges in the county during the period from July 1, 2005 through November 16, 2006, as well as being paid \$40,291 as a county employee for performing the same job duties. In addition, another county bridge department employee was paid \$7,300 as a contractor and \$30,099 as a county employee. The invoices submitted to the county from the county bridge foreman's private company lacks the details to determine the exact locations and sizes of the bridges, the amount of materials used by the company, or whether the county or the private contractor provided the materials. The invoices submitted to the county should have had enough information to determine the exact location, size of bridge, date of service, and materials used. Without these details we could not determine the validity of these bridge expenditures, including whether the work was actually performed, and if the work was completed, whether completed on public or private property.

**KNOTT COUNTY  
COMMENTS AND RECOMMENDATIONS  
Fiscal Year Ended June 30, 2007  
(Continued)**

**2007-06. Knott County Bridge Foreman And A Bridge Employee Were Compensated As Both An Employee And An Independent Contractor To Build Bridges That Could Not Be Validated (Continued)**

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Also, we could not determine at what point the bridge foreman was acting as a county employee and when he was acting as a private, independent contractor. According to IRS Publication 15A, Circular E, the fiscal court, as an employer, must distinguish an individual as either an employee or an independent contractor. If the individual is distinguished as an employee, all compensation is considered wages, applicable to withholdings, and subject to the federal wage and hour laws specifically related to earning time and one-half after 40-hours of work in one week.

We recommend the county attorney review all invoices to determine the validity of the expenditures. We further recommend the fiscal court cease the practice of paying the bridge foreman as both an employee and an independent contractor. We will refer this matter to the Internal Revenue Service, the Kentucky Revenue Cabinet, U. S. Department of Labor, Kentucky Department of Labor, and the Kentucky Retirement System for review.

*County Judge/Executive Randy Thompson's Response:*

*This allegation by the auditor also is somewhat inaccurate. Knott County did not have a bridge foreman during the time they are referencing. The Judge Executive received several calls from citizens and emergency personnel about several bridges they deemed unsafe to cross by passenger vehicles and especially emergency vehicles. In an effort to have as many of these bridges repaired, as inexpensively as possible, as quickly as possible for the safety of people utilizing them, the Judge Executive, after consulting with representatives of The Governor's Office for Local Development, decided to contract with an individual, who also is employed by the county, to repair many of these bridges. It is common knowledge among people in the county that this individual does this type of work for other people on his own time as well. Each bridge was identified and presented to the Fiscal Court for approval. The contract specifically stated the employee would not be allowed to do this specific work between the hours of 8am and 4:30pm Monday through Friday, as this is when he is expected to be on the job for the county. Furthermore, he was not allowed to use county tools or equipment while constructing said bridges. The contract also stated, the individual was responsible for all taxes, as he would be presented with a 1099 form for this contracted work. The hiring of this individual saved the taxpayers of Knott County several thousand dollars and repaired many unsafe bridges throughout the county. Nowhere in the circular E does it state that an individual cannot be both an employee in one instance and an independent contractor in another. We respectfully disagree with the auditor's opinion on this matter. However, we will gladly submit this to the county attorney for review.*

*County Judge/Executive Randy Thompson's Additional Response:*

*While we still disagree with the auditor's opinion that hiring a county employee as an independent contractor to do additional work after hours and weekends to save the taxpayers money is inappropriate, we've decided to no longer do this to appease the auditor.*

**KNOTT COUNTY**  
**COMMENTS AND RECOMMENDATIONS**  
**Fiscal Year Ended June 30, 2007**  
**(Continued)**

**2007-06. Knott County Bridge Foreman And A Bridge Employee Were Compensated As Both An Employee And An Independent Contractor To Build Bridges That Could Not Be Validated (Continued)**

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Auditor's Reply:

According to IRS Publication 15, "generally, a worker who performs services for you is your employee if you have the right to control what will be done and how it will be done. This is so even when you give the employee freedom of action. What matters is that you have the right to control the details of how services are performed. If an employer-employee relationship exists, it does not matter what it is called. The employee may be called an agent or independent contractor. It also does not matter how payments are measured or paid, what they are called, or if the employee works full or part time." IRS Publication 15A states that "to determine whether an individual is an employee or an independent contractor under the common law, the relationship of the worker and the business must be examined. In any employee-independent contractor determination, all information that provides evidence of the degree of control and the degree of independence must be considered. Facts that provide evidence of the degree of control and independence fall into three categories: behavioral control (whether the business has a right to direct and control how the worker does the task for which the worker is hired), financial control (whether the business has a right to control the business aspects of the worker's job), and the type of relationship of the parties (i.e. written contracts, benefits provided, permanency of the relationship)." In this instance the employer has the right to control what the employee will do and how it will be done.

**KNOTT COUNTY**  
**COMMENTS AND RECOMMENDATIONS**  
**Fiscal Year Ended June 30, 2007**  
**(Continued)**

**2007-07. Finance Director Was Compensated As Both An Employee And An Independent Contractor**

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During our testing of payroll, we noted the finance director receive \$33,365 of compensation as a county employee as well as \$16,800 for janitorial duties performed as a contractor for the fiscal year.

According to IRS Publication 15A, Circular E, the fiscal court must distinguish an individual as either an employee or an independent contractor. If the individual is distinguished as an employee, all compensation is considered wages and all earnings are subject to the applicable withholdings.

We recommend the fiscal court cease the practice of paying individuals as both employees and independent contractors. All work performed by the employee for the fiscal court should be treated as wages subject to Federal and state wage and hour laws. We will refer this matter to the Internal Revenue Service, the Kentucky Revenue Cabinet, U. S. Department of Labor, Kentucky Department of Labor, and the Kentucky Retirement System for review.

*County Judge/Executive Randy Thompson's Response:*

*Refer to previous response. Finance Director works after hours performing a totally different job.*

*County Judge/Executive Randy Thompson's Additional Response:*

*The Finance Director is no longer performing this job in addition to her regular duties.*

**Auditor's Reply:**

According to IRS Publication 15, "generally, a worker who performs services for you is your employee if you have the right to control what will be done and how it will be done. This is so even when you give the employee freedom of action. What matters is that you have the right to control the details of how services are performed. If an employer-employee relationship exists, it does not matter what it is called. The employee may be called an agent or independent contractor. It also does not matter how payments are measured or paid, what they are called, or if the employee works full or part time." IRS Publication 15A states that "to determine whether an individual is an employee or an independent contractor under the common law, the relationship of the worker and the business must be examined. In any employee-independent contractor determination, all information that provides evidence of the degree of control and the degree of independence must be considered. Facts that provide evidence of the degree of control and independence fall into three categories: behavioral control (whether the business has a right to direct and control how the worker does the task for which the worker is hired), financial control (whether the business has a right to control the business aspects of the worker's job), and the type of relationship of the parties (i.e. written contracts, benefits provided, permanency of the relationship)." In this instance the employer has the right to control what the employee will do and how it will be done.

**KNOTT COUNTY**  
**COMMENTS AND RECOMMENDATIONS**  
**Fiscal Year Ended June 30, 2007**  
**(Continued)**

**2007-08. Knott County Fiscal Court Continues To Lack Controls Over County Vehicles And Cell Phones Provided To County Employees And Fails To Report Personal Use As Taxable Income**

Numerous county vehicles are maintained by the county and assigned to employees for business use. County employees and officials have use of these vehicles during non-business hours. Audit staff was informed that many employees drive the county vehicles to and from work and for personal business. The county pays for insurance coverage, repairs/maintenance, and fuel for these county vehicles. The following is a partial list of county vehicles and the employee/department responsible for each vehicle as of June 30, 2007:

Year	Make	Model	VIN	Title/Department
2004	GMC	Envoy	1GHDT13S14212297	Emergency Management
2005	Ford	Crown Victoria	2FAHP71W65X172753	Sheriff
2005	Dodge	Caravan	1D4GP25E65B344179	Senior Citizens/Human Services
2007	Chevy	Avalanche	3GNFK12327G161108	Judge/Executive
2003	Jeep	Cherokee	1J4GW58N63C556109	Judge/Executive
1999	Chevy	4x4	1GCGK24R2XR719544	Magistrate
1999	Chevy	4x4	1GCGK24R3XR719603	Magistrate
1999	Chevy	4x4	1GCGK24R5XR708117	Magistrate
1999	Chevy	4x4	1GCGK24R7XR706112	Magistrate
2002	Chevy	Tahoe	1GNEK13Z32J307344	Treasurer
1999	Jeep	Cherokee	1J4GW58NOXC753735	Finance Officer
1996	Chevy	Caprice	1G1BL52P9TR124574	County Finance Director
2001	Jeep	Cherokee	1J4FF48S71L502696	Bookkeeper - Sheriff
1998	Ford	Expedition	1FMRU18W6WLB34170	Bookkeeper - Sheriff
1991	Jeep	Cherokee	1J4FJ28S5ML57798	Emergency Management Asst. Director
1994	Ford	Explorer	1FMDU34X8RUE07127	Emergency Management Director
2003	Chevy	Tracker	2CNBJI3C236945993	E-911
1993	Jeep	Cherokee	1J4FJ27S8PL520198	Parks
1992	Jeep	Cherokee	1J4FT28SXNL155416	Parks
2001	Chevy	Silverado	Unknown	Animal Control
1993	Jeep	Cherokee	1J4FJ27S4PL520201	Works Program
2003	Toyota	Tacoma	5TEWM72N33Z262065	Ecology/Solid Waste
2000	Jeep	Cherokee	1J4FF28SOYL257755	Human Services Director
1994	Toyota	4Runner	JT2VN39W3R8060714	Human Services
2001	Chrysler	Van	1C4GJ25B71B216340	Human Services
2002	Chevy	Van	1GNDU23E42D272823	Human Services
1994	Ford	Crown Victoria	2FALP71WXVX183653	Human Services
1994	Toyota	Pickup	4TARNO1P1RZ193770	Human Services
1999	Chevy	Truck (4 DR)	1GCGK24R7XR714923	Road Foreman
1999	Chevy	Truck (4 DR)	1GCGK24ROXR714830	Bridge Foreman
2005	Chevy	Suburban	3GNFK16Z95G160730	Coroner
1997	Ford	F150XCAB	Unknown	Jailer

The county has implemented controls over vehicle use based on previous audit suggestions; however, the controls implemented have not addressed the core issues regarding personal use of public vehicles.

**KNOTT COUNTY**  
**COMMENTS AND RECOMMENDATIONS**  
**Fiscal Year Ended June 30, 2007**  
**(Continued)**

**2007-08. Knott County Fiscal Court Continues To Lack Controls Over County Vehicles And Cell Phones Provided To County Employees And Fails To Report Personal Use As Taxable Income (Continued)**

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The same types of issues exist for cell phone usage. The fiscal court pays for the telephone, usage charges, long-distance, replacement phones, and repairs for each telephone. The fiscal court maintains fifty-one (51) cell phones.

The following issues warrant further consideration by the fiscal court and need to be addressed:

- Mileage and phone logs do not contain information sufficient to distinguish personal use from business use. In the mileage and phone logs tested, vital information was not included, such as the actual mileage for each trip listed or the call and phone service used.
- Commuting use of vehicles and personal use of cell phones is not properly included on employees' Form W-2 statements for tax liability.
- The necessity for county vehicles and cell phones for employees, other than those who are on call at all times, is questionable, especially in relation to commuting use that has been permitted by the fiscal court. The cost of these vehicles and telephones for usage, maintenance, and insurance significantly increases cost to taxpayers.

The county's Administrative Code states, in Section 820.2 "no official or employee shall request, use or permit the use of any publicly-owned or publicly-supported property, vehicle, equipment, material or service for the personal convenience or the private advantage of himself or any other person unless such use has been formally authorized." In addition, the county's vehicle and cell phone use policy restricts the use of county cell phones and vehicles to fiscal court business only. The vehicle use policy states further that all calls and out-of-county trips must be logged, and that any cell phone utilized for business use or vehicle driven home by an employee is expected to be parked by 6:00 pm unless fiscal court business requires otherwise.

Personal use of public resources is permitted if the entity has approved such use; however, personal use should be reported as compensation on employees' wage and tax statements. Internal Revenue Code Section 61(a) states that the commuting value of a vehicle owned or leased by a public entity represents taxable income to the employee.

Controls over cell phones and vehicles do not address issues related to personal use of cell phones and vehicles. Consequently, the personal use of public cell phones and vehicles allows employees to receive an employee benefit without incurring the appropriate tax consequences of such benefits. The county's cell phone and vehicle use policy allows the employees cell phone usage and to drive the county vehicles home, but the county does not currently include any of the personal use or commuting use of public resources on wage and tax statements. The cell phone use policy requires that personal calls be logged by officials/employees and the vehicle use policy approved by the fiscal court requires that only out-of-county trips be logged by officials/employees. Documentation of in-county mileage is not required. This increases the risk that employees are using cell phones and vehicles for personal reasons because employees are not required to account for every call or mile that is used or traveled with public property.



**KNOTT COUNTY**  
**COMMENTS AND RECOMMENDATIONS**  
**Fiscal Year Ended June 30, 2007**  
**(Continued)**

**2007-08. Knott County Fiscal Court Continues To Lack Controls Over County Vehicles And Cell Phones Provided To County Employees And Fails To Report Personal Use As Taxable Income (Continued)**

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We recommend the county improve controls over county vehicles and cell phones by implementing the following:

- The fiscal court should contact the Kentucky Department of Revenue and the Internal Revenue Service relating to wage reporting and tax liability in prior years and enforce current policy related to vehicles assigned.
- Every employee and every department that has county cell phones and vehicles should maintain logs. The logs should include, at a minimum, the date, destination, purpose, and mileage for ALL use of the vehicle and the usage for ALL cell phones.
- Personal calls, use and commuting mileage for county vehicles should be properly reported as compensation/employee benefit on W-2s in accordance with IRS regulations. Several methods can be used to determine the vehicle use that is taxable income to the employees, including the cents-per-mile rule, the lease value rule, and the commuting rule.
- The county should evaluate the necessity of county cell phones and vehicles for each employee. Cell phones and vehicles should be assigned based on criteria established by the fiscal court and not for the convenience of the official/employee. In addition, the county should explore alternatives for county-related travel, including the possibility of compensating employees based on a usage/mileage reimbursement rate when their personal cell phone or vehicle is used for business travel instead of providing a county cell phone or vehicle for business use.

*County Judge/Executive Randy Thompson's Response:*

*The allegations in this section appear to refer to the first 3 months of this fiscal years audit, which was under another administration. The present Judge Executive stopped the practice of county employees using county vehicles for personal use and collected several county cell phones within a week of receiving appointment to the office. All county vehicles now have a mileage log in them to be filled out whenever it is driven. The current Judge Executive also negotiated a new contract with the cell phone provider, saving the county thousands of dollars. The current Judge Executive has asked all county department supervisors for a complete inventory of all county assets within their departments. In difference to your statement however, the amounts for personal usage of automobiles, where in fact included on the W-2's of the employees during the calendar year 2005. We agree cell phones and automobiles sometimes lend themselves to personal use, so we will continue to monitor these usages.*

**Auditor's Reply:**

The fiscal court did not provide vehicle mileage logs or cell phone use for determination to auditors for the period of 7/1/05 through the date of the audit report.

**KNOTT COUNTY**  
**COMMENTS AND RECOMMENDATIONS**  
**Fiscal Year Ended June 30, 2007**  
**(Continued)**

**2007-09. Knott County Fiscal Court Approved The Exchange of .14 Acres Owned By Fiscal Court With .04 Acres Purportedly Owned By The County Attorney and Former County Treasurer's Brother**

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During our review of fiscal court minutes, we noted that on June 15, 2005, the fiscal court approved a resolution for a like kind property exchange of .14 acres owed by the county and .04 acres of pool property purportedly owned by the former county attorney and a former county treasurer's brother. There was no mention in the deed belonging to the fiscal court that shows .04 acres being excepted out and owned by the county attorney and the former county treasurer's brother.

The fiscal court hired an engineering company to determine whether the county attorney and the former county treasurer's brother own the above property. The engineering company sent a letter dated October 27, 2005 which stated the following:

"After reviewing and discussing said information, it is our professional opinion this matter is a legal issue and should be resolved by an independent legal audit. The crux of the issue is in the chain of title for Ruth Slone. There was an adjacent right-of-way deed acquired by the county from D.W. Hays in 1962 for the sole purpose of improving public road access (the old county road and bridge east of the existing Perkins Branch KY Route 3391 bridge at Troublesome Creek). The surveyor interpreted that this property still belongs to the county and indicates as much on the record plat. The Slone Representatives propose the county right-of-way property revert back to the original property after abandonment. This is the area that falls beyond our expertise and scope:

- ◇ Does the Ruth Slone property include the D.W. Hays right-of-way deed in its chain of title?
- ◇ Is there an automatic reversionary clause, which applies to public right-of-way abandonment, or is there a reversionary document on record? (There doesn't appear to be any reversionary language in the 1962 D.W. Hays right-of-deed)."

We recommend that the fiscal court implement the above recommendation. As of the date of this report, a deed for this transaction has not been recorded.

*County Judge/Executive Randy Thompson's Response:*

*The County Attorney has examined the chain of title to the subject property and is of the opinion it does not include the "D.W. Hays right-of-way deed" dated December 22, 1962. In fact, Eugene Ward owned the subject property from 1960-1964; and there was no right-of-way found covering this property. He further advises that even if a right-of-way had existed, its abandonment caused an automatic reversion by operation of law. See KRS 178.116; and OAG 84-358.*

**KNOTT COUNTY  
COMMENTS AND RECOMMENDATIONS  
Fiscal Year Ended June 30, 2007  
(Continued)**

**2007-10. Knott County Fiscal Court Failed To Take Corrective Action Of Prior Year Ended June 30, 2005 Comments Relating To Pool Project, Federal And Restricted Funds**

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▪ **Knott County Fiscal Court Failed To Oversee Coal Severance Project**

The recommendations made in the prior year's fiscal court audit were for the county attorney or Attorney General to review change order transactions for appropriateness, and to determine if county officials acted outside the scope of their authority and if so, whether their acts resulted in invalid transactions, possibly entitling the fiscal court to restitution. Furthermore, the county attorney or Attorney General should investigate whether the project was completed according to the contract and approved change orders, and take all necessary steps to rectify this situation. In addition, the county attorney or Attorney General should review and take appropriate action to limit the county's liability and potential liability for injuries, which could arise from the incomplete pool project. Finally, the Governor's Office for Local Development (GOLD) should have been notified in writing of all resolutions to these findings.

▪ **Knott County Fiscal Court Purchased Pool Property From Related Parties**

It was recommended fiscal court review the mentioned related party transactions to determine if a violation of the county's ethics policy had occurred. As of the date of this audit report, fiscal court has not implemented a review. This has been referred to the Attorney General.

▪ **Knott County Fiscal Court Overpaid Pool Contractor By \$105,331**

It was recommended the county attorney or Attorney General should seek restitution from the contractor in the amount of \$105,331.

▪ **Knott County Fiscal Court Did Not Earmark \$49,223 Of Federal Receipts Or Provide \$11,180 In Matching Funds for Federal Expenditures**

It was recommended that fiscal court contribute \$11,180 to meet appropriate matching requirements and an additional \$49,223 for projects FEMA made advanced payments on, to the federal bank account known as the 2001 flood account.

▪ **County Records Show That During The Fiscal Year, \$25,945 Was Paid From The 2001 Flood Account For Ineligible Work**

The matter was referred to FEMA. The county has not pursued recovery of these funds erroneously paid to the vendor.

▪ **The County's General Fund Owes The Road Fund \$35,000, The LGEA Fund \$332,823, And The E-911 Fund \$33,147**

During the period under audit, the general fund did not repay the amounts stated to the appropriate funds. This has been an ongoing comment since fiscal year ended June 30, 2003.

Our overall recommendation is for the fiscal court to review each comment and take the appropriate action.

**KNOTT COUNTY**  
**COMMENTS AND RECOMMENDATIONS**  
**Fiscal Year Ended June 30, 2007**  
**(Continued)**

**2007-10. Knott County Fiscal Court Failed To Take Corrective Action Of Prior Year Ended June 30, 2005 Comments Relating To Pool Project, Federal And Restricted Funds (Continued)**

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*County Judge/Executive Randy Thompson's Response:*

*The Fiscal Court instructed the County Attorney to investigate this situation. He advised the court he had reviewed the contract of Eagle Construction and in his opinion, they were not obligated to pay for certain items i.e. a raindrop, a slide, and a water future pump, including piping and valves, etc. It is the opinion of the county attorney that these are items provided by Recreonics and Natari and paid for by the county.*

**2007-11. Knott County Judge/Executive May Appoint Only One Deputy Judge/Executive**

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It is our understanding the former county judge/executive had two (2) deputy judges. One was to work full-time during the week while the other served only on weekends. One was terminated effective March 31, 2006. Purportedly, the other resigned effective mid-March 2006 to run for the position of county judge/executive. However, he has continued to remain on the county's payroll and according to the judge/executive he was on paid leave. We could not find any documentation of the leave balances to justify the payment of this time or any documentation this individual was approved for new employment. During March-April 2006 the current county judge/executive hired two additional deputy judge/executives.

The county was not in compliance with KRS 67.711, which states the county judge/executive may appoint "a" deputy judge/executive. "A" deputy judge/executive simply means one deputy judge/executive. OAG 78-453. During the fiscal year, there were continual multiple deputy judge/executives. We recommend the county judge/executive become compliant with KRS 67.711 and appoint only one deputy judge/executive. In addition we will refer this matter to the Attorney General for review.

Furthermore, the Knott County Administrative Code states, "Only upon the written approval of the Judge/Executive may the full-time employee begin his/her leave of absence". No documentation was provided to confirm approval of a leave of absence and fiscal court minutes do not discuss the matter. Therefore, we are recommending the county attorney review all payments made to the deputy judge/executive who resigned to determine if the county should seek restitution for compensation paid to this individual after the date of his resignation.

*County Judge/Executive Randy Thompson's Response:*

*The Judge Executive only has one Deputy Judge and a Judge Pro-Tem. Section 120.2 of the Knott County Administrative Code states "Administrative personnel appointments by the Judge Executive shall include a Deputy Judge Executive...Judge Executive Pro-Tem."*

**KNOTT COUNTY**  
**COMMENTS AND RECOMMENDATIONS**  
**Fiscal Year Ended June 30, 2007**  
**(Continued)**

**2007-12. All Contingent Liabilities Should Be Disclosed To The Fiscal Court**

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According to the county attorney's representation letter received by us, the potential litigation issues within Knott County are somewhere between \$40,000 and \$80,000. However, a construction lien was filed with the county clerk's office, subsequent to year-end, for the amount of \$424,060 relative to the Knott County Youth Center and Knott County Senior Center.

We recommend the county attorney or Attorney General review these transactions related to the lien filed for appropriateness, and to determine if invalid transactions possibly entitle the fiscal court to restitution. The county attorney or Attorney General should investigate whether the projects were completed according to the contract and approved change orders, and take all necessary steps to rectify this situation. In addition, the county attorney or Attorney General should review and take appropriate action to limit the county's liability and potential liability for injuries, which could arise from the incomplete projects. Finally, the Department for Local Government (DLG) should be notified in writing of all resolutions to these findings. We further recommend that in the future, the fiscal court have a clear plan and understanding of its responsibility for overseeing the construction and completion of all construction projects to avoid potential litigation.

*County Judge/Executive Randy Thompson's Response:*

*As to the litigation regarding the Knott County Youth Center, despite the amount of the construction lien that has been asserted it continues to be the opinion of the county's legal counsel that the matter value has a maximum value at or around \$80,000.00. At this time discovery had just begun on this matter and both sides have filed legal motions, however, the county's legal assessment of its potential liability remains unchanged at this time. In fact the claim stands a strong possibility of being dismissed outright. In addition, the County Judge Executive informed the Court of the action immediately after receiving the appropriate documentation.*

**KNOTT COUNTY**  
**COMMENTS AND RECOMMENDATIONS**  
**Fiscal Year Ended June 30, 2007**  
**(Continued)**

**2007-13. The County Failed To Comply With State Laws And Regulations**

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The county did not follow the guidelines set forth in the instructional guide and policy manual issued by the State Local Finance Officer and applicable Kentucky Revised Statutes. Specifically, the following non-compliances were noted:

- Fiscal court did not pay invoices within thirty (30) days as required. Thirteen (13) instances were noted in which payment to vendors occurred more than 30 days after the county received the invoice(s). In addition, the statutory 1% interest penalty was not paid to vendors for each month payments exceeded thirty (30) days. Approximately 30% of the invoices in the test sample were not paid within the statutory time frame.
- Within our sample tested, six (6) out of sixty-four (64) disbursements had insufficient supporting documentation or no documentation at all. Three (3) out of sixty-four (64) were incorrectly recorded in the wrong account or fund.
- The fiscal court had adopted a policy for small purchase procedures as required on November 16, 2005. When practical, this policy requires several price quotations from reputable sources before purchases of less than \$20,000 are made. Based upon our review, no documentation was provided which indicated that the small purchase procedures were implemented.
- Fiscal court did not review the administrative code.
- Fiscal court does not have a written investment policy.
- The fiscal court has an established Federal Grant Fund. However, federal monies were accounted for in the following funds: the LGEA Fund, and State Grant Fund, along with other non-federal monies.

KRS 68.020(5) outlines provisions for settlement of the treasurer's accounts within thirty (30) days after the close of each fiscal year. A written security agreement is a requirement of 12 U.S.C. § 1823(e). KRS 68.005(2) states, "The fiscal court shall review the county administrative code annually and, during the month of June, may by a two-thirds majority of the entire fiscal court amend the county administrative code at that time." Requirements for a written investment policy are addressed in KRS 66.480(3). Compliance requirements regarding expenditures are noted in KRS 65.140(2), which requires all bills for goods and services to be paid in full within thirty (30) working days of receiving vendor invoices. It continues to state that if payment of invoices exceeds thirty (30) days, a 1% interest penalty should be added. Also, the county's administrative code states the fiscal court adopted KRS Chapter 45A, *Model Procurement Code*, in its entirety. KRS Chapter 45A.385 allows purchases without bidding for contracts less than the \$20,000 threshold if the small purchase procedures are in writing and available to the public.

We recommend the county review, utilize, and adhere to all applicable laws and regulations. Specifically, we recommend the county take the following action to comply with the Department for Local Government requirements and Kentucky Revised Statutes included within:

- Ensure expenditures occur within thirty (30) days of receiving vendor invoices or compensate vendors according to statutory interest penalties for payments exceeding thirty (30) days.
- Review administrative code annually in June.
- Adopt a written investment policy.
- Follow the small purchasing procedures in accordance with the administrative code and KRS Chapter 45A, *Model Procurement Code*.
- Ensure all financial transactions are recorded in the ledgers.
- Ensure that federal monies are accounted for in the appropriate funds.

**KNOTT COUNTY**  
**COMMENTS AND RECOMMENDATIONS**  
**Fiscal Year Ended June 30, 2007**  
**(Continued)**

**2007-13. The County Failed To Comply With State Laws And Regulations (Continued)**

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*County Judge/Executive Randy Thompson's Response:*

*The Fiscal Court will make every effort to pay bills as timely as possible. With respect to the other comments, without more specific information from the auditors we cannot appropriately respond. While you're asking us to be very specific in all we do, your comments are very vague.*

Auditor's Reply:

Each and every invoice tested and all findings were discussed in detail with someone on your staff.

**2007-14. Knott County Fiscal Court Did Not Follow Competitive Bidding Requirements For County Projects And Contracts Not Bid Were Paid To Related Parties**

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Based on the county's fourth quarter financial report, the fiscal court had \$7,081,910 of operating expenditures net of related debt and payroll. A sample of sixty-four (64) transactions was tested for compliance with contract bidding requirements. Of this sample, forty-eight (48) out of sixty-four (64) transactions were not competitively bid. Our test of compliance and internal controls noted \$4.86 million out of \$7.08 million were not bid.

During our review, we noted bids were not obtained for the county judge/executive's 2007 Chevrolet Avalanche valued at \$36,200 in addition to the paving projects previously mentioned.

According to the county's Administrative Code, the county has adopted, in its entirety, KRS Chapter 45A, the Kentucky "Model Procurement Code" (KMPC). According to KMPC, the county, as a local public agency, may dispense with the requirement of competitive bidding and contract purchase through noncompetitive negotiation only when 1) a written determination is made that competition is not feasible and 2) it is determined, in writing, by a designee of the county that an emergency exists which will cause public harm as a result of the delay in competitive procedures. We found neither any written determination that competition was not feasible, nor that an emergency was declared to exist. Thus, the county did not comply with the KMPC in the payment of these expenditures.

Competitive bidding ensures that the county procures materials and service contracts at the best price available. By limiting competition, the county may not get the benefits of the best price available.

**KNOTT COUNTY**  
**COMMENTS AND RECOMMENDATIONS**  
**Fiscal Year Ended June 30, 2007**  
**(Continued)**

**2007-14. Knott County Fiscal Court Did Not Follow Competitive Bidding Requirements For County Projects And Contracts Not Bid Were Paid To Related Parties**  
**(Continued)**

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We recommend the county review and adhere to applicable laws relating to procurement. Also, fiscal court should review related party transactions to determine if they are in violation of the county ethics policy. A list of related party transactions and the procurement tested, which were not competitively bid, have been forwarded to the Department for Local Government and to the Attorney General.

*County Judge/Executive Randy Thompson's Response:*

*Bids were requested for the 2007 Chevrolet Avalanche. This was explained to the representative of the state auditor's office. The Judge Executive wrote an advertisement and had it faxed to various dealerships, thinking this would be a more effective way to attract bids from a larger variety of dealerships. This unfortunately was not the case as only one dealership submitted a bid. The auditors have not identified the 44 transactions to which they refer to the Judge Executive so we cannot specifically respond to that allegation, however, we do advertise for bid every item or service anticipated costing more than \$20,000.00. We also advertise each year for the purchase of products and services including, but not limited to, gravel, asphalt, fuel plus other services i.e. vending machines. We did not do this in 2006, because contracts for these items/services had been bid and awarded during the later part of 2005. As for the related party issues, again I'm not sure specifically what transactions to which they're referring, however the court is aware of related parties as identified earlier.*

**Auditor's Reply:**

Each and every invoice tested and all findings were discussed in detail with someone on your staff.



**KNOTT COUNTY**  
**COMMENTS AND RECOMMENDATIONS**  
**Fiscal Year Ended June 30, 2007**  
**(Continued)**

**2007-15.            Knott County Fiscal Court Should Improve Controls Over Payroll Procedures**

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Several deficiencies were noted in the internal control structure as it relates to payroll, namely, in the documentation, preparation, and presentation of payroll items. The following issues were noted during payroll testing and need to be addressed by the fiscal court:

- Of the thirty-four (34) timesheets tested, sixteen (16) timesheets tested did not contain proper supervisor signatures or proper employee signatures.
- Timesheets did not contain a week ending date to substantiate a valid timesheet for the weeks tested. Also, timesheets do not track actual daily hours employees work.
- For one employee tested, no record of approval of salaries through the fiscal court is on file.
- In nineteen (19) instances, employee files were missing W-4 or K-4 information, or both.
- Health insurance plan information should be maintained in a separate file other than individual personnel files based on confidentiality issues concerning the new Health Insurance Portability and Accountability Act of 1996 (HIPAA) laws.
- Vacation time and sick leave are not monitored. No documentation was found for any employees on the amount of vacation or sick leave available, used or earned.
- Treasurer holds full-time employment at a local bank as well as full-time employment for the county. The timesheets did not contain enough information to determine if the treasurer maintained a regular schedule.

The county's administrative code in 330.4 defines a full-time employee as "an employee who works at least forty (40) hours per week on a regularly scheduled basis."

KRS 337.320 requires that employers "keep a record of the hours worked each day and week by each employee." Timesheets are also necessary to document eligibility for employee benefits such as retirement.

Internal Revenue Service guidelines allow for the exclusion of certain employee benefits, including retirement, dental insurance, and health insurance, from gross wages subject to federal taxation. However, the employee benefits are only to be deducted from gross wages once.

Good internal controls dictate that all employees, except those statutorily exempt from this requirement, maintain and submit timesheets for payroll processing. To further strengthen internal controls, the timesheets should be signed by the employee and by the employee's immediate supervisor for verification and attestation of the accuracy of time reported.

Lack of proper internal controls for payroll increases the risk that incorrect payroll information will be processed by the county and that these errors will not be identified and corrected.

**KNOTT COUNTY**  
**COMMENTS AND RECOMMENDATIONS**  
**Fiscal Year Ended June 30, 2007**  
**(Continued)**

**2007-15. Knott County Fiscal Court Should Improve Controls Over Payroll Procedures**  
**(Continued)**

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We recommend that the county implement the following internal control procedures to ensure the proper documentation, preparation, calculation and presentation of payroll related items:

- The county should ensure that employees' health insurance information is kept separate from the personnel files.
- The county should ensure that all deductions are applied consistently among all employees according to documentation filed in each employee's personnel file.
- The county should contact the Internal Revenue Service and the Kentucky Department of Revenue for guidance on how to correct the 2006 Forms W-2.
- The county should require all employees to maintain and submit timesheets with daily detail, except those statutorily exempt. Furthermore, the county should require employees and their immediate supervisors to sign all timesheets.
- The fiscal court should approve all salaries and salary changes.
- The county should maintain correct job classifications to ensure proper reporting in correct funds and budget line items.
- The county should record and monitor all vacation and sick leave earned and used.

We will refer this matter to the U. S. Department of Labor, Internal Revenue Service, Kentucky Department of Labor, Office of Workplace Standards, Kentucky Retirement System, and the Department of Revenue for review.

*County Judge/Executive Randy Thompson's Response:*

*Let the record reflect, this occurred during the previous administration. The current administration discovered the mistake and corrected it. The Knott County Fiscal Court 2004 Forms W-2 as originally filed were incorrect. Certain employee benefits were deducted twice from the gross earnings, which resulted in taxable wages being understated by \$84,337.29. As referenced above in the auditor's comments, employee benefits including retirement, dental insurance and health insurance withholdings are only to be deducted once from gross earnings to arrive at taxable earnings. The Knott County Fiscal Court issued 86 2004 Forms W-2c (corrected wage and tax statements) to correct the original 2004 Forms W-2 and recommended that employees amend their 2004 Individual Income Tax Returns. The Knott County Fiscal Court Forms W-2 for 2005 and 2006 correctly reflect the deductions for the retirement and employee insurance withholdings and do not require amending as the auditors suggest.*

*The Knott County Fiscal Court pays employees for overtime hours at a rate of one and one half times their hourly wage rate. The Knott County Fiscal Court's policy is to pay employees regular hourly rates for holidays. The auditor's findings that the Knott County Fiscal Court did not properly calculate overtime and that a holiday was paid at an overtime rate were not brought to our attention during the auditor's fieldwork and we have not been provided with specific information to either confirm or contest their findings.*

**KNOTT COUNTY**  
**COMMENTS AND RECOMMENDATIONS**  
**Fiscal Year Ended June 30, 2007**  
**(Continued)**

**2007-15. Knott County Fiscal Court Should Improve Controls Over Payroll Procedures**  
**(Continued)**

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*County Judge/Executive Randy Thompson's Response (Continued):*

*The Knott County Fiscal Court approves all salaries and salary changes as the auditors have included in their recommendations. If the auditors found an exception to this policy, it was not discussed with us during their fieldwork.*

*The Knott County Fiscal Court will strive to improve internal control procedures relating to payroll timesheet preparation and supervisory approval of payroll timesheets. The Judge Executive has appointed an employee to specifically oversee this and to monitor vacation and sick leave of county employees.*

Auditor's Reply:

Each and every invoice tested and all findings were discussed with someone on your staff.

**2007-16. Knott County Fiscal Court Expenditures Of Over \$2 Million Failed To Have Proper Documentation Or Comply With Payment Procedures**

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During the course of our engagement, we noted the county did not implement proper accounting and internal control procedures for financial management activities:

- Auditors noted forty-eight (48) expenditures out of sixty-four (64) tested, or \$4.86 million out of \$7.08 million, which did not meet testing requirements (i.e. original invoices, maintaining of records, bids, et cetera).
- Check signers are the treasurer and the finance director/purchasing officer. KRS 68.275(1) requires checks to be signed by the county judge/executive and co-signed by the county treasurer.
- Invoices were not properly cancelled upon payment to prevent duplicate payments. We also noted that our subsequent events test work revealed the potential for a triple payment crossing years. We noted one payment for financial consulting in FYE 2005 appears to also have been paid in FYE 2006 and again in FYE 2007. There were no supporting invoices for FYE 2005 or FYE 2006, however the invoice for FYE 2007 is for services rendered within FYE 2005 and 2006.
- Several invoices were noted as having descriptions on the invoices, which did not correspond to the classification of the account line item to which it was posted or the fund from which the payment was actually made.

**KNOTT COUNTY**  
**COMMENTS AND RECOMMENDATIONS**  
**Fiscal Year Ended June 30, 2007**  
**(Continued)**

**2007-16. Knott County Fiscal Court Expenditures Of Over \$2 Million Failed To Have Proper Documentation Or Comply With Payment Procedures (Continued)**

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- Purchase orders were not issued in accordance with established guidelines. Important information was often excluded from purchase orders such as product descriptions, quantities, prices, totals, and appropriation codes. Also, purchase orders were processed without proper approval signatures. Purchase orders were also issued without comparison to availability of budgeted funds.
- An accurate encumbrance list was not maintained. A variance of \$391,731 was noted between the county maintained General Fund encumbrance list and the 4<sup>th</sup> Quarter Financial Statement.

Good internal controls dictate that adequate supporting documentation be maintained for all receipts and disbursements. The Department for Local Government (DLG) requires that original documentation be maintained for all expenditures. Copies of invoices and faxed invoices are unacceptable. All original invoices should agree to corresponding purchase orders. Additionally, all documentation for financing activity should be maintained and included on financial reports.

Proper accounting procedures and internal control policies should be in place. Bank reconciliations should be prepared for all accounts. Pre-numbered and preprinted checks should be used for disbursements. The use of counter checks should be limited. All checks should be stored in a secure location. All expenditures should be reviewed and approved by the fiscal court prior to payment. Also, disbursements should be made as soon as practical after the fiscal court approves the expenditures. All invoices should be cancelled upon payment. Purchasing procedures should be in accordance with (DLG) requirements, specifically, purchase orders must include the appropriation account number to which the claim will be posted and proper approval by management or the department head. Vendor names, departments, product descriptions, quantities, and prices should be on each purchase order issued in order for the purchasing procedures to be effective. Sound management and a good internal control structure are essential for the achievement of full oversight and accountability.

Lack of proper accounting practices and internal controls increases the risk that misstatements of financial activity and/or fraud will occur and go undetected by the fiscal court. Without proper procedures in place to mitigate this risk, the fiscal court is exposing public resources to potential misstatements and/or fraud.

We recommend the county attorney or Attorney General review this matter to determine whether further action is warranted. We also recommend the fiscal court take critical steps to implement proper accounting and internal control procedures and monitor financial management activities by doing the following:

- Develop procedures for retaining adequate supporting documentation for all financial transactions.
- Maintain original invoices for all expenditures.
- Maintain proper documentation for all financing activities including, but not limited to, lease agreements and amortization schedules. Also, all financing activity should be included on financial reports as required.

**KNOTT COUNTY**  
**COMMENTS AND RECOMMENDATIONS**  
**Fiscal Year Ended June 30, 2007**  
**(Continued)**

**2007-16. Knott County Fiscal Court Expenditures Of Over \$2 Million Failed To Have Proper Documentation Or Comply With Payment Procedures (Continued)**

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- Develop procedures to ensure good accounting practices and internal control procedures.
- Prohibit the use of counter checks and all checks should be kept in a secure location.
- Maintain bank statements with imaged copies of both front and backsides of checks.
- Approve and review all disbursements prior to payment. In addition, the lapse of time between approval of expenditures and the actual disbursement should be limited.
- Cancel (mark paid) all invoices upon payment.
- Adhere to purchasing procedure requirements and guidelines set forth by the Department for Local Government (DLG) State Local Finance Officer Policy Manual.

*County Judge/Executive Randy Thompson's Response:*

*The Knott County Fiscal Court was responsible for writing over 10,300 checks. Five disbursements-only five-were made by counter checks. In at least two of these instances, these were simply for accounts, which were set up to make one deposit for a grant for which one check would be written. In the other cases they were written to close accounts. It is our thinking that if only one check will ever be written on an account that it would certainly be unwise to order and pay for checks when only one check is needed.*

*In response to your note that 44 expenditures out of 54 tested did not meet testing requirements, it is our understanding that many of these are for the months of July and August which you did not notice were not in the paid invoice files as previously stated. For the others, we wish you would be more specific as to why they did not pass you test. You say (i.e. original invoices, maintaining of records, bids, etcetra). This is not very specific. We think all of these invoices to which you are referring were in fact available for your viewing. You seem to be saying they were not there. If they were not, it is probably for those that were in July or August.*

**Auditor's Reply:**

Of the 44 expenditures which did not meet testing requirements, 44 did not follow the requirements for the procurement bid process as established by the county's Administrative Code, 2 did not have sufficient documentation and 10 were not paid within 30 days of the invoice date. Of the 54 expenditures tested in total, 13 were expenditures paid in the months of July and August. Of those 13 expenditures, 6 did not follow the requirements for the procurement bid process as established by the county's Administrative Code.

**KNOTT COUNTY**  
**COMMENTS AND RECOMMENDATIONS**  
**Fiscal Year Ended June 30, 2007**  
**(Continued)**

**2007-17. Knott County Fiscal Court Minutes Should Accurately Reflect What Occurs At Fiscal Court Meetings; and Committees, Commissions and Boards Appointed By The Fiscal Court Should Also Maintain Minutes Of Their Respective Meetings**

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Fiscal court minutes are not detailed enough to provide adequate information to the public. The fiscal court minutes and appointed committees need to accurately reflect what occurs during fiscal court and committee meetings. The minutes need to include all bids submitted to fiscal court, a listing of all claims approved and paid, copies of budgets and financial statements or other items presented and any other information that supports the actions taken by the fiscal court. Anyone looking for information about meetings should be able to find it in the minutes. The absence of this supporting documentation prevents the public from knowing what actually occurred at the meetings. We were often unable to verify information in the minutes because of the lack of detail and supporting schedules. Many of the questions we have with the minutes could have been avoided by simply attaching the amendments, budgets, ordinances, bids, deeds, agreements, or any additional paperwork that was submitted to the fiscal court. We recommend that the fiscal court appointed committees, commissions and boards maintain accurate minutes with supporting documentation of all actions taken. We further recommend that the fiscal court minutes contain any information necessary to support the actions taken by the fiscal court and consult with the Department for Local Government (DLG) if any additional help is needed.

*County Judge/Executive Randy Thompson's Response:*

*This concern will be addressed with the county clerk, who records the minutes for the Fiscal Court's meetings. In addition, boards or committees appointed by the Fiscal Court will be required to keep minutes of their meetings.*

**2007-18. The County Does Not Maintain Proper Documentation For Accurate Valuation Of Capital Assets**

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The county does not maintain original documentation for all capital assets. Several instances were noted in which copies had to be obtained for deeds, titles, and invoices since the original documentation could not be located. Additionally, some deeds were not executed; titles and invoices were not available at all. Also, there was no complete capital asset inventory listing available. Based upon missing, incomplete or lack of documentation; values relating to capital assets could not be determined.

The county cannot properly determine insurance needs or if surplus property is owned without proper documentation. The *Instructional Guide For County Budget Preparation and State Local Officer Policy Manual*, issued by the Department for Local Government (DLG), outlines requirements for capital assets. The requirements specifically state: "All contracts, invoices, purchase orders and authorizations, vendor bidding documentation, receipts, deeds, etc. must be maintained/filed with the asset documentation records."

The county does not maintain proper supporting documentation for capital assets and did not comply with capital asset requirements as established by DLG.

**KNOTT COUNTY  
COMMENTS AND RECOMMENDATIONS  
Fiscal Year Ended June 30, 2007  
(Continued)**

**2007-18. The County Does Not Maintain Proper Documentation For Accurate Valuation  
Of Capital Assets (Continued)**

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We recommend the county maintain all capital asset documentation as required in DLG's policy manual. Original documentation should be maintained in a central location with copies provided to the applicable departments as necessary for departmental recordkeeping.

*County Judge/Executive Randy Thompson's Response:*

*The Knott County Fiscal Court will make every effort of prepare a Capital Assets Schedule.*

**2007-19. The County Does Not Maintain Proper Documentation Totaling \$18,000 For  
Independent Contractors**

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During our testing of payroll, we noted one independent contractor retained by the county to provide services did not have a written agreement with the county for the scope of the services to be performed, or for the details and documentation required for submission of invoices for payment. The contractor, a corporation, was paid \$18,000. The contractor, however, was approved by the fiscal court to be paid a monthly amount. Our test work noted that none of these payments were reported to the IRS on Form 1099 MISC.

In addition, a second independent consultant, an individual was noted. The former treasurer was paid both as a consultant and as an employee and did not have a written agreement for the scope of services to be performed.

In order for these contractors to be paid, an invoice detailing the services provided on a monthly basis should be maintained and monitored to ensure the safeguarding of assets. Supporting documentation should be maintained with the invoices for time and expenses incurred for the services provided. We recommend the county contact federal and state agencies for guidance on how to determine and document the status of independent contractors, the writing of service agreements, submission of supporting documentation for services performed in order to minimize any loss of assets.

*County Judge/Executive Randy Thompson's Response:*

*A written agreement will be signed between the county and independent contractors in the future.*

**KNOTT COUNTY**  
**COMMENTS AND RECOMMENDATIONS**  
**Fiscal Year Ended June 30, 2007**  
**(Continued)**

**2007-20.            Approximately \$8.2 Million Of Assets Are At Risk Due To Inadequate Insurance Coverage**

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As of the date of this audit report, the Knott County Judicial Center, Detention Center, and the ongoing swimming pool project do not have adequate flood insurance. The county obtained \$135,000 of flood insurance for the Judicial Center building. This building had an outstanding principal debt balance at June 30, 2006 of \$5.855 million.

The \$1.1 million Detention Center and the swimming pool project with costs exceeding \$1 million do not have any flood insurance. However, the county does have a \$1 million flood policy through KACO, but this policy does not cover buildings located in the 100-year floodplain. The Judicial Center, Detention Center, and swimming pool are located in the 100-year floodplain.

Good cash management dictates the fiscal court retain adequate insurance coverage and ensure assets of significant value are included on insurance policies. According to FEMA's *Public Assistance Guide* for insurable structures that do not have flood insurance or carry inadequate flood insurance, FEMA will reduce all grants by the greater of: 1) the maximum amount of insurance proceeds that have been obtained from a standard National Flood Insurance Program flood insurance policy; or 2) the actual insurance proceeds received.

Approximately \$8.2 million of the county's assets, representing about 99% of buildings, are at risk because the fiscal court does not maintain adequate flood insurance. In addition, the assets that are not adequately insured were all recently constructed or remodeled.

We recommend the fiscal court maintain adequate insurance coverage for all assets. Officials should periodically review insurance policies to ensure all assets have been added or deleted as necessary. Also, we recommend the fiscal court obtain flood insurance for all assets located in flood prone areas in an amount sufficient to recover losses suffered in the event of a flood.

*County Judge/Executive Randy Thompson's Response:*

*The county has contacted KACO and requested the additional insurance coverage.*

**2007-21.            Fiscal Court Paid \$221 In Late Fees On Credit Card Payments**

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During the course of our testing, we noted that many invoices were paid past the due date, especially for the Knott County Fiscal Court and Human Services Center. Payments for credit cards used by the employees included \$221 in late fees. We further noted in several instances the supporting documentation (i.e. cash register receipts) were not maintained or reconciled to the statements and an outstanding balance remained unpaid on the accounts. We also noted that the credit limits of two (2) of the vendors used for credit cards seemed excessive when compared to the average amount purchased each month. The average purchase amounts on the cards on a monthly basis are approximately \$350, however the credit line on one card is \$9,500 and \$22,500 on the other. The latter one also has a cash line limit of \$4,500. Based upon the documentation we could not determine the number of cards that were available on either of these accounts or the employees assigned to these cards.

Strong internal controls dictate that there be procedures in place that reconcile monthly credit card receipts submitted by employees to the credit card statements. A strong mitigating control is to remove cash availability on any credit card and maintain the credit limits commensurate with the needs of the county.



**KNOTT COUNTY**  
**COMMENTS AND RECOMMENDATIONS**  
**Fiscal Year Ended June 30, 2007**  
**(Continued)**

**2007-21. Fiscal Court Paid \$221 In Late Fees On Credit Card Payments**  
**(Continued)**

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We recommend that the fiscal court implement procedures to eliminate the excessive credit lines ensure proper authorization and use of the credit cards and to reconcile the credit card receipts to the credit card statements on a monthly basis.

*County Judge/Executive Randy Thompson's Response:*

*The court will look into the credit limit on cards and make every attempt to pay them on time.*

**2007-22. Fiscal Court Should Improve Policy and Procedures Related To The Schedule Of Expenditures Of Federal Awards**

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During our review of the Schedule of Expenditures of Federal Awards (SEFA), we noted multiple significant errors. Specifically, we noted the following errors:

- ◇ Approximately \$251,793 of federal expenditures were not included on the schedule.
- ◇ The SEFA did not include all applicable federal grants awarded to the county government.

OMB Circular A-133, Subpart C-Auditees; § \_\_\_\_\_. 300 Auditee responsibilities states, "The auditee shall:

- ◇ Identify, in its accounts, all Federal awards received and expended and the Federal programs under which they were received. Federal program and award identification shall include, as applicable, the CFDA title and number, award number and year, name of the Federal agency, and name of the pass-through entity.
- ◇ Prepare appropriate financial statements, including the Schedule of Expenditures of Federal Awards in accordance with § \_\_\_\_\_.310"

We recommend fiscal court follow OMB Circular A-133 for preparation of the government's SEFA and review for completeness. We further recommend procedures be put into place to ensure all federal grants awarded and expenditures paid are included.

*County Judge/Executive Randy Thompson's Response:*

*The Fiscal Court will make every effort to follow the guidelines you specify.*

